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An examination of film distribution in Canada with provincial policy implications.

Mary Lynn Louise. Becker
University of Windsor

AN EXAMINATION OF FILM DISTRIBUTION
IN CANADA WITH
PROVINCIAL POLICY IMPLICATIONS

by

Mary Lynn Louise Becker

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ABSTRACT

Federal policies designed to assist the film industry in Canada are largely unsuccessful since the implementing bodies have not understood how the industry operates. Provincial programmes duplicate federal programmes and may discriminate against industry participants from other provinces. Public agencies appear to have regarded the film industry as a series of isolated splinters with little interconnection. To date, public funding programmes have targeted individual film projects or industry sectors: production, distribution or exhibition.

Thus, the film industry, confronted with the problems of a small, fragmented market and the existence of foreign, vertically-integrated film conglomerates, has not developed to its full potential. Foreign firms, which are vertically integrated, maintain an advantage in conducting their operations because of the existing structure.

This study examines the economics of the industry and regards it as a unit, with each sector representing an important link to the other sectors and to the industry as a whole. The system is connected initially by a flow of film products throughout all sectors of the industry. These film products generate revenue and profit for each sector which becomes financing for producers to create new film products and repeat the cycle. If one component is weak or if the flow between two components is impeded, the entire system breaks down. Distribution is identified as the weak

component because of its feeble linkages with production and exhibition.

Public programs can address the imbalances by enhancing the industry structure. Providing assistance to Canadian distributors will also support producers who rely on distributor financing. Encouraging exhibition of Canadian films provides assistance to producers and distributors who have an outlet for their products. Federal programs should specifically target the area of distribution which demands a national solution. Provincial resources will be best utilized in production financing and encouraging the exhibition of Canadian films.

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TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE:

INTRODUCTION, METHODOLOGY AND TOPIC HISTORY

INTRODUCTION

The Canadian cultural industries are a national treasure to most Canadians. We respect and appreciate the resulting products from which reflections and interpretations of our perceived personalities and lifestyles are portrayed. We have long recognized that individuals in these industries need financial support since their products are not always commercially-oriented nor meet with popular approval. Canadian filmmakers are usually amongst this group. Those who seek to tell a unique story in a unique way may not achieve commercial success. Public programmes have been established to assist these artists; to attempt to ensure that not only are skilled artists allowed to pursue their craft, but also to provide an outlet for public exposure of their products.

Filmmakers, arguably more than recording artists, publishers, and radio and television broadcasters have not achieved success from an industry perspective. The existence of the industry continually seems to be on the brink of demise and public exhibition of the film products is a rare occurrence. Lack of financing is targeted as a perpetual problem.

Yet this is not a problem of neglect. Many government task forces have investigated the problem and made recommendations for improvement. Governments, primarily at the federal level, but increasingly at the provincial level, have implemented public assistance programmes designed to assist the industry. The effect of these programmes have failed to meet expectations. What has gone wrong?

In fact, previous government studies have failed to examine the industry from a perspective reflective of its operations. That is, past research has identified specific components of the industry and directed all efforts toward a very specific goal. This approach fails to recognize that the film industry is, as any industry, a system, where products (or services) are exchanged between the industry participants for finances. That the effects of any policy would be limited to a particular industry component is very short-sighted. Financing that has been provided has been misdirected in that it does not flow throughout all industry participants as it should.

The analysis of this research approaches the industry as the integrated system that it is and seeks to target the vital links that allow it to be maintained. These links will point to policies that can appropriately address the concerns of the industry as a whole and allow it to function as a complete unit.

A. DEFINITIONS

Throughout this project, reference is made to various industry players and functions. Clarification of these terms should be made immediately. Michael Conant in Antitrust in the Motion Picture Industry defines the function of film **distributors** as the industry wholesalers whose activities lead to the sale of the rights to exhibit a film (Conant,1960:2). Within the distribution sector, both Canadian and foreign companies comprise the industry. **Canadian distributors** according to Telefilm Canada, are those who comply with the Canadian status rules of the Investment Canada Act (Telefilm Canada,1988:3.). Generally they are Canadian-owned and controlled. Other companies that do not fit this description are termed foreign **distributors** even though they may make a significant contribution to the Canadian distribution industry.

The **production sector** is similar to the manufacturing process. The input of supplies and materials, capital, finance and labour achieves an end product which is licensed to a distributor to market (Conant,1960:2). Again, to differentiate between **Canadian and non-Canadian producers and productions**, the Telefilm definition is used. Individual producers, and other key production personnel exercising financial control over the project must be Canadian citizens or permanent residents as defined in the Immigration Act. The production company must be Canadian-owned and controlled as established in the Investment Canada Act (Telefilm Canada, Policies:Feature Film Fund,3.). The production itself must meet the minimum level of Canadian content criteria established under the Income Tax Act for Capital Cost Allowance (Telefilm Canada, Policies: Feature Film Fund,5.) and those prescribed by the Canadian Film and Video Certification Office. The Canadian involvement in a co-production or joint venture will be considered Canadian. Those producers and productions not meeting these requirements will be considered non-Canadian.

Exhibition is the retail end of the industry. These individuals or companies sell access to consumers to view the motion picture (Conant,1960:1). Revenue may be in the form of direct payment from the consumer or advertisers depending upon the exhibition market.

These markets are, according to the order in which they are usually exploited:

1. **Theatrical** - cinematic release, both domestic and foreign
2. **Home video** - rentals and sales, both domestic and foreign
3. **Pay cable TV** - Canadian market only
4. **Network Television** - both domestic and foreign
5. **Syndicated Television** - Canadian market only
6. **Non-theatrical** - showings at schools, universities, institutions such as prisons or hospitals, lumber camps, oil rigs, military camps, government installations, ships, film societies and commercial airlines. (Weinzweig,1987:172-181).

Any reference to other terms concerning the industry or its trading practices will be defined as they become pertinent to the research.

I. BACKGROUND

Foreign participation in the Canadian film industry has had both cultural and economic effects. Culturally, with the advent of film technology, Canadians took an active interest in recording their experiences through motion pictures. The first dramatic work shot here, 'Hiawatha' The Messiah of the Ojibway, was done in 1903 with a cast of Ojibway Indians (Clandfield,1987:3). In 1915, American film products began to cross the border and immediately the Canadian public was captivated by the glamour and gloss of the imported American images portrayed on the big screen. As their appeal was considerable, American films quickly established themselves on Canadian soil.

On the economic side, American film companies moved to Canada to begin filming productions during the same time, but their interest in Canada did not stop there. Even at this early date, influential Americans began to advocate a takeover of the Canadian film industry (Clandfield,1987:3).

The National Film Board was developed immediately prior to World War II and thus its initial activities were geared primarily to the war effort (Report of the Federal Cultural Policy Review Committee,1982:256). The NFB pioneered innovative techniques in film and video production and provided a solid training background for industry professionals. Its position as creator of non-competitive, non-commercial documentary productions was a direct result of the early hold the American film industry assumed in Canada (Audley,1983:218) and the beliefs of the first Chairman of the NFB, John Grierson. He felt that feature film production was not a worthwhile exercise for Canada since it made no difference in terms of cultural relevance from where a film came. A film industry that expressed our own life and safeguarded national identity was "just old-fashioned nationalistic non-sense" (Morris,1986:19).

Under the direction of C.D. Howe, the Canadian Co-operation Project developed between the Canadian government and the Hollywood major studios. The intention of the project was to redress the cultural imbalance portrayed in film. American film-makers were to refer to Canadian locations in their scripts in order to attract foreign tourists who would pump millions of dollars into the Canadian economy (Spencer,1986:11). That the project was both short-lived and unsuccessful is not a surprise.

The United States Justice Department, in 1949, forced divestment of the industry's vertical integration structure, which the major studios controlled over production, distribution and exhibition. While this move drastically reduced their strength and power in the U.S., Canada made no such restrictions and allowed industry integration by foreign companies to control film production and trade. The Canadian domestic industry, as a result, produced only 37 feature films between 1943 and 1959 (Report of the Federal Cultural Policy Review Committee,1982:253).

In 1968, after recommendations from numerous federal government task forces that had identified the need to address and expand the diffusion of Canadian culture, the Canadian Film

Development Corporation was created. Its mandate was "to foster and promote the development of a feature film industry in Canada" (Canadian Film Development Corporation Act, sec.10[1]) whose films "have a significant Canadian creative, artistic and technical content" (CFDC Act, sec.10[2a]).

In setting up the CFDC, the Interdepartmental Committee of Cabinet recognized the need for co-operation by the major distribution companies to develop the industry. Yet it stipulated that "little or no evidence exists at the moment to show that there would be a negative attitude on the part of foreign-controlled distribution companies, and public opinion might very well have an important bearing on the matter once a few good films are released" (Spencer,1986:12.). Exhibition quotas were rejected in order that Canadian film, with the support of distributors, would make it on their own merits.

The CFDC was granted a $10 million budget to provide loans, awards, grants and equity investments in Canadian feature film production. The impact was immediate with the film industry producing 20 films annually between 1968 and 1974, including such classics as "Mon Oncle Antoine," "Goin' Down the Road," and "The Apprenticeship of Duddy Kravitz." But most of these films failed to gain distribution. From 1968 to 1977, as a result, the CFDC's injection of $26 million in financing earned back only $5 million (Audley,1983:234).

While this incentive did boost the industry, private investment needed to be encouraged to diversify financing sources.

In 1974, revisions in the Capital Cost Allowance provided for a 100 per cent tax deferral in film investment on certified Canadian films. The system was later restructured to provide for a 100 per cent deduction over two years.

The Capital Cost Allowance restructuring increased film production enormously, attracting substantial private investment from previously untapped resources. The impact was recognized in the number of films produced and their budget size and content. In 1976, 34 certified Canadian feature films were produced with a total budget of $19.5 million. By 1979, these figures had jumped to 67 films whose budgets totalled $180 million. With substantial private financing, the CFDC changed its investment policies from equity financing to bridge financing, acting as a broker looking for investors. In 1981, it broadened its scope to include short films and video productions. These programmes provided a reasonably assured source for private financing.

Yet for all of its influence upon film production, the CCA has been identified as a blow to the distribution industry, for it decreased the importance of their participation in the start-up of production. As a result, not only did Canadian distributors have access to fewer films, but were also unable to influence the types of films produced (Kelly,1987:12).

The CCA focused on individual projects purely from the supply perspective, ignoring the critical importance of demand. Relative novices, intrigued by the prospects of tax savings, did not consider the value of a project and its future marketability.

Films were viewed as any other commodity with a return expected on investment. Producers attempted adoption of an American look in films by using American stars and talent and masking identifying landmarks of Canadian cities. There was little if anything inherently Canadian in these projects and also little of marketable value. A few, such as "Meatballs," "Atlantic City," "The Changeling" and "Scanners" saw international screens. But most failed.

As a result, the short boom of the Capital Cost Allowance went "bust" by 1980, when investors realized the error they had made with a plethora of expensive, disastrous films that no distributor wanted. This dilemma is demonstrated by 1980 production figures of 37 features produced with a total budget of $65 million.

Assisting production financing had certainly developed the industry since it established technical facilities and provided training and employment for film personnel. But if these films could not reach the public to generate revenue, the industry was not to survive. Foreign-owned distributors were not interested and Canadian distributors did not have a structural base to be attractive as marketing outlets.

With the Report of the Federal Cultural Policy Review Committee in 1982, understanding of the significance of distribution developed. "Some Canadian films could support themselves in the Canadian marketplace alone if they were made with moderate budgets, had adequate access to distribution and exhibition throughout the market and were assured government financial assistance in the early stages of production" (Federal Cultural Policy Review Committee,1982:259).

As it was, the Canadian distribution sector had a few larger independent Canadian companies but was mainly comprised of American branch plant distributors that were a hindrance in building a viable Canadian industry; a structural impediment. Furthermore, these foreign distributors transferred their profits generated in Canada to other countries; an obstruction of conduct (Pendakur,1985:176). These are identified as the two principal problems facing the Canadian film industry.

The CFDC changed to Telefilm Canada in 1983 and made more than $250 million available to independent producers over five years. The Broadcast Fund was established with an emphasis toward television programming production over theatrical film. In order to use the fund, a project had to have a pre-licensing agreement from a Canadian broadcaster to air in prime-time. Concurrently, the CRTC, during licensing renewal hearings with CBC, CTV and Global television networks, stipulated as a condition of licence that they had to air significantly more Canadian programming and use independent sources of production.

Production increased once again. Initially it was financed largely by Telefilm which allocated $67 million of funding to television production in 1986. But private investors, attracted this time with a reasonably assured market for their product, poured an estimated $150 million into film. In Telefilm-backed projects, the proportion of private investment rose to 20 per cent from three per cent between 1982 and 1986 (Knelman,1987c:64). Particular attention is now directed to a film-product's marketability before it is produced.

The importance of the television market to independent producers is so fundamental that without it, many would not be in business. In 1980, those companies with revenues greater than $1 million gained 30 per cent of total revenue through television programming and 41 per cent from television commercials. A dismal three per cent came from feature film production. Conversely, in the same year, film and video distribution companies in Canada earned 47 per cent of their revenues from the theatrical market but less than three per cent were from Canadian sources. Television represented 42 per cent of revenues, but again less than eight per cent were Canadian produced (Federal Cultural Policy Review Committee,1982:256).

The advent of pay-television in Canada in 1982 and the recent proliferation of the home-video cassette market created optimism for independent producers who saw these markets as new sources of distribution. Part of the condition of licence for each pay-network was to spend a stipulated amount on financing and programming Canadian feature films. However, the profitability of these pay-networks was originally overestimated and they soon experienced financial instability.

The rate of Canadian programming expenditure by pay networks decreased from 60 per cent to 20 per cent of net revenue. The cost of Canadian programming, which carried an uncertain market, was at least equivalent to the cost of licensing fees for popular U.S. movies and pay-TV stations were ineligible for Telefilm's funds. Financing of Canadian features was soon ignored. Further, obtaining the rights to the Canadian features that were aired did not have to originate through Canadian distributors but were acquired directly by the broadcaster (Audley,1983: 246).

The development of pay-television in Canada did little to strengthen the structure of the domestic distribution industry as their involvement was not made integral to industry operations. But, a further restructuring of Telefilm in 1986 allocated $33 million a year specifically toward a Feature Film fund for production and also targeted the importance of distribution with a Distribution fund initially set at $5 million annually but increased to $17 million in 1988 (Adilman,1988:35). Through this fund Canadian distributors are eligible for assistance in marketing Canadian films.

Thus, while numerous incentive programs and development agencies have attempted to foster the Canadian film industry, as of yet, they have failed to support those films that have been produced since market access through distribution has not been present. Consideration of the total industry activity is vital and appears to be the direction now contemplated.

> If the Canadian-controlled distribution industry can be strengthened, then a reasonable share of the profit made from distributing foreign films in the Canadian market will be in Canadian hands...What is essential is to reduce the level of direct control of the Canadian marketplace by foreign-controlled distribution companies which are integrated with the major U.S. film production

companies. (Audley,1983:246)

This sentiment was echoed by the film task force of 1985 who felt that Canadian distributors, if given access to the Canadian market, would commit a significant share of their revenues to the financing of Canadian films.

II. FOREIGN DISTRIBUTION IMPACT

To appreciate the control exercised by foreign distributors over the Canadian market, it is necessary to look at the industry structure and their revenue patterns.

In 1978, 91 firms were engaged in distribution of films in Canada and shared receipts of $195 million. Seventy-five per cent of these distributors were under Canadian financial control, but these firms controlled only 29 per cent of the theatrical market and 28 per cent of the television market. Furthermore, of the seven major distributors that accounted for 70 per cent of the total distribution revenues in 1978, six were under foreign control and 90 per cent of the films distributed to the Canadian theatrical market were imported (Lyon and Trebilcock,1982:5). In 1980, foreign controlled distributors reinvested into Canadian production less than one per cent of the $80 million earned in Canada (Audley,1983:246).

In 1984, Canadians owned 88 of the 108 distribution companies operating in Canada. The remaining 20 companies were owned by foreign interests, primarily U.S. Although Canadians owned 81 per cent of the companies, they only earned 30 per cent of the sector's total revenue of $319 million. About four per cent of this value can be attributed to the sale and rental of Canadian films and video (Statistics Canada,1984:3).

The essence of the problem is that historically, U.S. distributors have dominated the Canadian market to such a degree that they consider Canada part of their domestic market. However the United States is not part of the Canadian domestic market for Canadian distributors. Local Canadian film-makers have trouble getting their work to the screen because of the tightly controlled schedules for screen time in Canadian theatres by the Majors. As a result, about three per cent of our screen time goes to Canadian productions (Maclean's,1986:37).

This domination is partially a result of the reality of a small Canadian domestic market in proximity to the United States. No Canadian film, no matter how good it is, can expect to generate profits from the domestic market alone. The American domestic market is sufficiently large to provide a return and enjoy the benefits of vertical integration in foreign markets to ensure success. Furthermore, the industry has the economic and political clout internationally through this integration to demand adoption of its products.

Any Canadian distributor vertically integrated with either of the major theatre chains can use this access to the main points of sale to acquire all commercially valuable foreign or domestic movies. Both of the major Canadian theatre circuits, Cineplex Odeon and Famous Players, have ties to the Major American studios both historically and through corporate ownership. This ensures availability of first-run popular product. Other Canadian distributors' access to the major theatre chains is decidedly limited (Report of the Film Industry Task Force,1985:45). Since the distribution sector chooses the films to be made available to the public, it thus determines what products the Canadian public will have access to. This is considered unacceptable primarily because these decisions are made by non-Canadians, leaving Canadian companies in a marginal position in their own market.

Recent developments by the federal government have seen the Capital Cost Allowance reduced to 30 per cent effective January 1988, along with implementation of the half year rule such that the allowance is deducted over two years. Addressing the problem of importation and distribution of films, the federal government has tabled the Film Products Importation Act (a significantly weakened version of the original draft). This legislation directly addresses the issue of who has the right to import films into Canada and which films can be imported. While some in the industry are apprehensive about this bill (see Bergman, 1988a), actual passage of the legislation and its implementation will dictate its effects.

The new Free Trade Agreement may have implications for the ability of the Canadian government to enact reasonably protective legislation. While cultural industries have been excluded from the parameters of the legislation, any measure that would affect the distribution of American products could be considered outside the spirit of the Act and invite American commercial retaliation.

Michael Bergman (1988c) in "Trick or Treaty" has furthered stated that the language and terms of the Agreement neither explicitly includes nor excludes the cultural industries, leaving the government in a precarious position to enact legislation.

Discussions leading to the Free Trade Agreement have been attributed to frustrating protectionist measures advocated in Quebec concerning distribution of film. Bill 109, Quebec's Cinema Law, states that only Quebec-based distributors which are Canadian-owned are permitted to distribute films in Quebec. Exceptions are made for American Majors, already active in Quebec, which are either the "producer" of the film or which hold "world rights" to the distribution of a film (Cinema Canada, 1987f:35). Essentially, this has solidified the majors' domination in this market and prevented non-Quebec Canadian distributors from entering this market except through sub-distribution deals.

While the preceding outlines Canada's failure at protecting its own territory in the film industry, it provides a framework for a new perspective - provincial involvement in distribution. Patterned after Telefilm, Ontario set up the Ontario Film Development Corporation in 1986 to provide funding assistance to independent film-makers with a total budget of $ 7 million. Through its Sales and Distribution program the OFDC provides loans to Ontario-based, Canadian-controlled distributors to market new Canadian feature films.

That Canada needs a subsidized film industry is supported through both cultural and economic arguments. Culturally, the goal of the industry is to proliferate and add to the Canadian experience through film, allowing Canadians to see and recognize themselves on the big screen. With regard to economics, the film industry is very labour-intensive and generates significant surplus market activity, supports industries of necessary equipment and services, and benefits hotels, restaurants and local economies. It has been estimated that for every dollar of tax incentive, the government gets back perhaps three times that much in money spent (Knelman,1987c:64).

Canada is not alone in supporting a domestic film industry. Industrialized countries such as Australia, Brazil, Great Britain, Japan and most European countries have provided state support to stimulate domestic industries.

Development of effective policies at the federal level must continue, yet the provinces have an integral role in introducing legislation. This is not to suggest that small isolated industries should develop in each province, but rather to bring a focus on integrated provincial involvement that supports the Canadian film industry.

III. THEORETICAL FRAMEWORK

In "The Economics of Film: What is the Method?", Douglas Gomery has outlined three methods for analyzing the film industry: business studies, industrial-organization economics and marxism. Each approaches the research from a different perspective, having unique assumptions for industry goals.

"Industrial-organization economics examines how profit-maximizing business concerns interact with the market forces of supply and demand" (Gomery,1982:85). The discipline uses the model of structure, conduct and performance to analyze the industry (see Chart 1). Performance outlines qualities and expectations desired from the industry by society. This is dependent upon conduct of the firms, observed in activities such as pricing, marketing or copyright protection. These practices are contingent upon industry structure within which the firm must adapt its behaviour. Finally, the market structure is influenced by basic conditions of the supply of inputs to and the nature of the demand for the industry's product.

The intent of this type of analysis, as evidenced by the arrows in the diagram, is an explanation of the causal relations among the models components. Within the film industry, market structure, through vertical integration and entry barriers, has allowed for discriminatory conduct measures and created monopoly conditions over supply and demand. Alteration of one of these components of structure would affect industry conduct and redistribute the basic conditions. It was indicated earlier in this chapter that structural impediments and obstructions of conduct are the two primary concerns for Canadian distributors. The analysis will concentrate on these two components of the model.

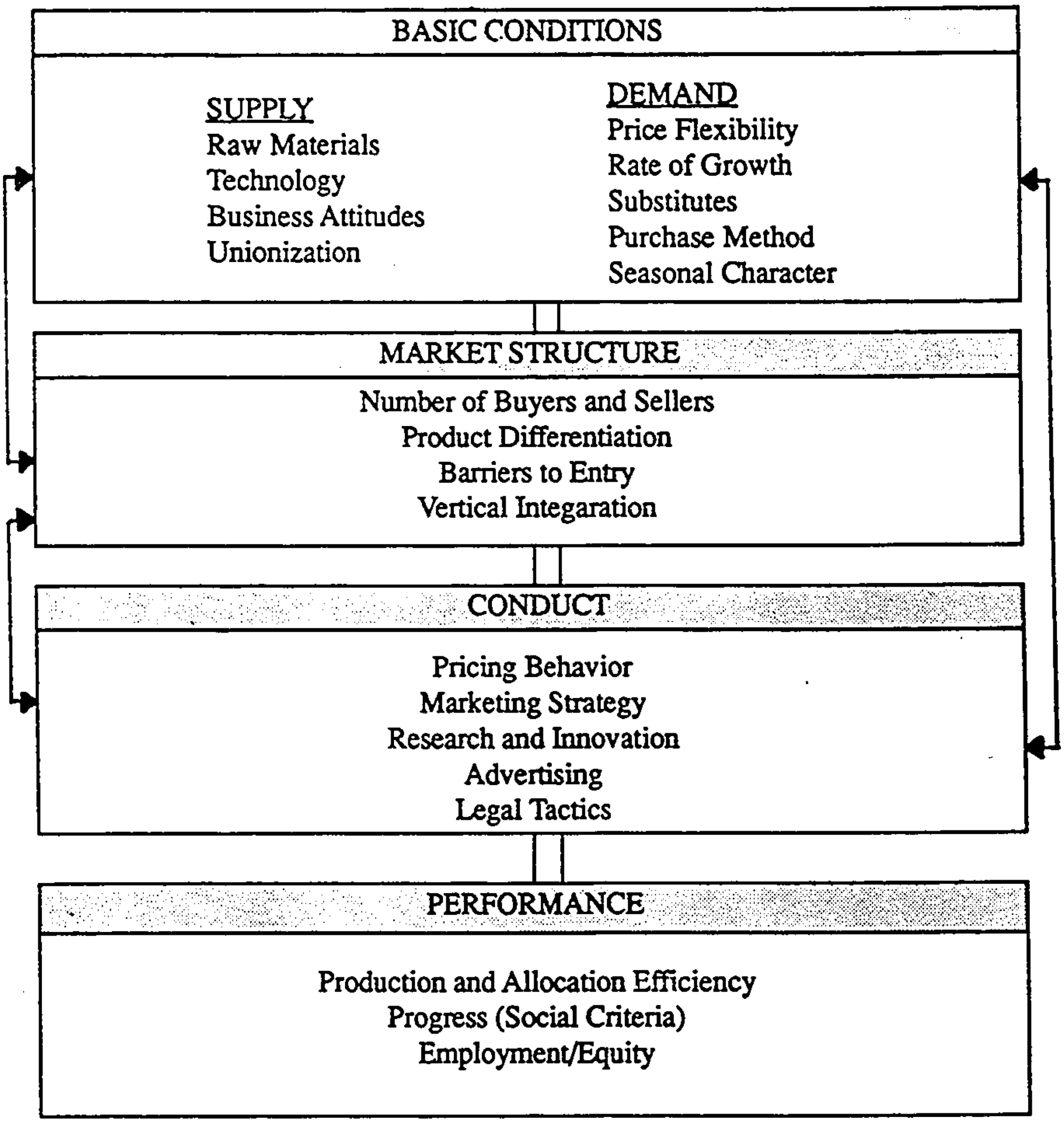
Conant's (1960) Antitrust in the Motion Picture Industry is an example of an industrial-organization economics analysis. Gomery (1982) states that Conant demonstrates that improper industry performance prior to the Paramount decrees of 1949 by the U.S. Justice Dept. was created through oligopolistic structure and restrictive conduct. The unique and uncertain nature of the film product allowed this development. Destroying the vertical integration through the Paramount decrees provided both structural remedies through divestment of exhibition and conduct rearrangements through barring certain trading practices. Ultimately performance was enhanced because of improved quality and number of films exhibited for public enjoyment.

For industrial-organization economists, state intervention and market regulation can correct industry behaviour without necessarily altering the system. It can target one or all of the structure-conduct-performance components and orchestrate a desired solution in particular problem areas.

This theory will be used to assess the distribution sector in Canada.

Chart 1

A MODEL FOR INDUSTRIAL ORGANIZATION ANALYSIS: STRUCTURE, CONDUCT, AND PERFORMANCE



Source: Gomery, Douglas.(1982) *The Economics of Film: What is the Method* Film/Culture: Explorations of Cinema and Its Social Context. Sari Thomas,ed. (Metuchen, N.J.: The Scarecrow Press) 86.

IV. METHOD

If public involvement is justified by both cultural and economic arguments, this thesis focuses upon the economic side and gears the analysis to the activities of the distribution sector. In general terms this highlights the financial health and stability of Canadian independent distribution and pinpoints specific problems which demand resolution through regulation.

The next two chapters will follow the model of industrial-organization economics by respectively focusing on the components of Market structure and Conduct. This analysis will identify the industry problems inherent within each of these components. Subsequent to the conclusions obtained from the economic analysis, examination of the current Canadian federal and provincial policy programmes will be conducted in Chapter IV to identify the problems these policies are intended to address. Finally, melding the observations of Chapters II and III with those from the policy analysis will demonstrate whether the appropriate policies have been put in place in Canada, and if not, changes or additions will be offered.

Comparisons, as demonstrated above, will be conducted between Canadian and foreign participants and Canadian and foreign film products. Exhibition outlets are primarily restricted to the Canadian market in theatrical and home video, but are extended to the foreign market when specifically indicated. Industry behaviour will be explained in appropriate economic terms and theory, specifically the importance of oligopoly, vertical integration, and trade discrimination.

Secondly, the level of government activity must be assessed for its possible effects and to determine the appropriate sources of subsidization and the resulting industry expectations. This analysis will include examination of current funding sources, in particular the Ontario Film Development Corporation and Telefilm, and regulatory stipulations. Similarly, specific analysis of fiscal policy tools including the Capital Cost Allowance and tax incentives, levies and subsidies that may be introduced will be examined for their theoretical impact and, within the Canadian industry, for their actual use and impact upon Canadian distributors.

Quebec's activities are considered a model in Canada in terms of potential legislation and anticipated problems. Examination of their policies, both advocated and enacted, are crucial since this province pioneered active involvement in film distribution.

Industry financial data has been obtained from mainly government sources to assess Canadian vs. foreign distributors' performance. These include (but are not limited to) industry size in terms of economic contribution, total industry profits, total receipts, capital investment, industry expenditures, number of films released, revenues of Canadian features, screen time by national origin of film, and screentime at theatre circuits. In addition to government sources, income statements, annual reports and trade journals as available illuminate the financial picture.

It has been suggested that the mere quality of "Canadianness" in a distribution company will not necessarily enhance the distribution of Canadian film. Specifically in reference to Cineplex-Odeon, "now that Canada finally has its own domestic Major, the marketplace is no more hospitable for smaller Canadian firms than it was before. 'Our' Major seems to behave very much the way 'theirs' do. Vertical integration constitutes a roadblock for the industry as a whole." (Cinema Canada,1986b:52).

Yet in the absence of government intervention, vertical integration is a necessity for survival. "It is not accidental that today, among the distributors who have survived from the early years, the strongest are those with integrated production capacities...Nor is it a co-incidence that the new, stronger Toronto-based distributors are now also vertically integrated" (Kelly,1987:11).

It appears that Canadians must decide what this industry should comprise. There are a multitude of options available to direct the industry, ranging from complete privatization and leaving distribution to market forces to public control of the sector under a crown corporation. Without government intervention, industry development rests on the growth of a few large, integrated firms thwarting the ability of smaller independent companies to prosper. But public intervention must be justified, for the Canadian experience suggests that a certain level of competition is necessary with a product as personal and individual as film. What is the appropriate balance and what should provincial involvement be?

The research purpose is to provide an in-depth industry analysis that will provide a framework within which comprehensive policy can be determined. A complete understanding of the industry climate is necessary to assess the appropriate choice of regulatory behaviour that will forge a healthy Canadian industry and determine a strategy for provincial policy. Projections of the impact upon industry growth, seen in these financial terms, as a result of the introduction of various fiscal tools will render an effective conclusion concerning the type and extent of government fiscal policy. The rationale is that by examining sector data, a clear focus upon the inter-relations comprising the industry will be possible. It is these inter-relations that determine the viability of the Canadian film industry in Ontario. Providing increased incentives to foster these relationships will provide the basis to develop the industry.

Problems encountered in this study is access to this information from the private sector. Not only is the industry highly secretive of its operations, but owing to its corporate integration, separating relevant data for this study from information relating to other industry operations is problematic. While the previously mentioned financial statements give an overall picture of industry operations, they do not necessarily indicate future activity. Current information from <u>Variety</u> and <u>Cinema Canada</u> provides an understanding of the industry direction, along with personal interviews with Canadian industry participants.

Government information is rather difficult to access because there seems to be confusion over areas of authority and responsibility for film matters. Other than Statistics Canada, it has been very difficult so far to find data, reports or studies conducted by Communications Canada, Telefilm or the OFDC through their public information channels.

Furthermore, the intent of the overall goal of fostering a Canadian film industry and the goal of provincial involvement have not been clearly articulated. While such mandates have been documented for the CBC, NFB, CFDC and Telefilm, their wording and specific objectives remain ambiguous and uncoordinated. A Canadian film may be either directed toward mass-appeal or for a specific audience. That employment of Canadian personnel as outlined in Telefilm's directive certifying Canadian productions can hardly constitute a "Canadian" film so much as it assists the Canadian unemployment problem typifies the ambiguity. Thus a "Canadian" film can be determined on three levels:

1. Those films that have some part of their budget expended in Canada.
2. Those films that use Canadian screen writers, directors, actors, etc.
3. Those films that have a Canadian plotline or identified Canadian locale.

(Globerman and Vining,1987:4)

The most recent Telefilm action strategy for 1990-91 indicates a more commercial thrust to its programmes. The agency plans to absolve itself from some of the investment risk in a film and hand this over to distributors who must provide solid promotion and marketing plans. The Association for Cinema, Television and Radio Actors (ACTRA) is very skeptical about the commercial orientation of the plan since it believes that the new policies will allow too many foreign actors to perform in Canadian films.

While these questions are certainly relevant to the issue of public funding of cultural industries, they are entering too much into the cultural issues of film and outside this specific analysis. However, clearly if more of these three elements are evident within a film production, obviously it will have more of a Canadian quality and deserving of public funding. Therefore matching achievable industry objectives with appropriate public incentive programmes is necessary to provide a minimum amount of direction for Canadian distributors.

V. PREVIOUS ANALYSIS AND RECOMMENDATIONS

Specific suggestions directed toward this issue from a federal perspective have been offered and this study proceeds with these in mind. For instance, the Report of the Federal Cultural Policy Review Committee in 1982 recommended:

- the Canadian Film Development Corporation should have its role and budget substantially enlarged so that it may take bolder financing initiatives.
- the Capital Cost Allowance tax incentive for investment in Canadian film production should continue and develop to promote a sustained film production industry over the long term instead of favoring one-shot film projects.
- the federal government should provide the Canadian-controlled film distribution industry with the economic strength to market Canadian films successfully to Canadian and foreign audiences through all channels of exhibition and sales.

In Canada's Cultural Industries, Audley recommends :

- increasing the Capital Cost Allowance to 150 per cent to recognize the risks in producing Canadian films.
- a more integrated approach by ensuring that not only is production through a Canadian company, but distribution is through a Canadian company as well.
- foreign vertical integration evident in the relations between Canadian-owned theatre chains and foreign major distributors must be prevented.
- taxes collected on the export of distribution revenues should be

directed to producers of Canadian film.

- provincial governments with jurisdiction over exhibition could collect a 10 per cent film tax on admissions and redirect the proceeds into production.

- most importantly, a comprehensive strategy for the CRTC, CBC, NFB and Telefilm must be formulated to foster co-operation and complementary roles to develop the Canadian film industry.

In 1985, the Report of the Film Industry Task Force recommended:

- that the distribution of films and videos in all medias[sic] in Canada be by companies owned and controlled by Canadians.

- creation of tax incentives and other support mechanisms that encourage investment in Canadian production, distribution and export companies to develop an industry infrastructure.

- prevention of all vertical integration of distribution and exhibition (including video retail) to the extent that such integration limits competition and freedom of trade in Canada.

Similar research from a provincial perspective has not yet been undertaken; however, a study conducted by the OFDC addressing provincial film policy is expected in the spring of 1990.

Therefore while it is not the intent of this paper to specifically assess the recommendations from these reports, instead they assist to raise new questions to answer:

1. Has the most effective analysis been conducted in these previous studies?

2. Have these policies been adequately assessed prior to

implementation for their effect?

The contention of this research suggests that analysis has been conducted very improperly which has led to the enactment of inadequate policies. More comprehensive research would follow the system of industry operations; the flow and inter-relations of its participants and lead to policies which are comprehensive in nature. The process of this research will seek to identify the fundamental weaknesses in the system and the appropriate necessary solutions.

The importance of this research cannot be overstated in light of the dependency that still exists toward American cultural products after years of attempting to develop our own industry. The feeling is evident that we are heading in the right direction by considering all elements of the industry and their inter-dependencies, instead of individual sectors. While for the individual, film may be disregarded as merely entertainment, its combined effects across time and across individuals cannot be dismissed.

> Although films overtly entertain, they covertly teach... Their propaganda value certainly was the reason why the industry and the government worked together to have them distributed overseas in the years after World War II... Inasmuch as the social and cultural role of film has always been acknowledged, it is not surprising that many countries are now beginning to rebel against the cultural invasion by American media. Nor is it surprising that American media struggle to maintain their foreign markets.
>
> (Audley,1983:219)

Effective action and resolution has been a long time in coming.

CHAPTER TWO

MARKET STRUCTURE OF CANADIAN FILM DISTRIBUTION: A SHAKY FOUNDATION

INTRODUCTION

The model of industrial organization economics presents market structure as an integral component of the industry. Further, the model subdivides this component into the following elements:

1. The buyers and sellers in the industry.
2. Product differentiation amongst industry producers.
3. Vertical integration.
4. Barriers to entry.

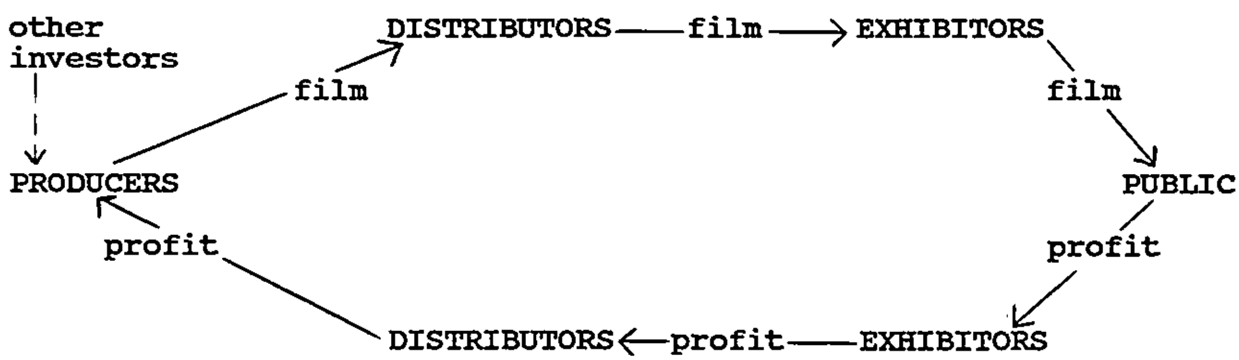
This chapter will provide an analysis of market structure focusing upon each of these industry elements. Individually, each contributes significantly to industry principles and protocol, but combined in a package, they provide a framework which can determine a firm's ability to compete. That is, the industry structure sets the rules of play of the distribution "game", whether each firm's conduct follows the rules will be examined in Chapter 3, but for now understanding how the industry is structured is a precedent to understanding how each firm operates within the structure.

Perhaps this raises a chicken and egg question: Does the industry structure determine whether a firm can successfully compete, or have the results of decades of competition shaped the industry structure? Referring to Chapter 1, and the dominance which American firms had in Canada early in the history of the film business, the dominance remains. The deduction is clear that the industry has shaped individual firm conduct. How each firm behaves, the issue of Chapter 3, can only reinforce the industry rules.

2-I.BUYERS AND SELLERS

The industry itself can be represented as a system of the flow of two resources: a product (film), and capital generated from both revenues and investments. In a simplified model demonstrating the flow of these resources (Figure 2-1) it is shown that the trade in film through the industry participants of producers, distributors and exhibitors results in a reverse flow of revenue and investment that eventually reaches back to the producer.

FIGURE 2-1: FLOW OF CANADIAN FILM INDUSTRY



(Lewis,1986:17.)

2-I-A. Production-Distribution Link

The relationship between producers and distributors is determined by a licensing arrangement where the distributor has the right to distribute the producer's film product in a certain territory for a specified period of time. In order to accomplish this task, distributors in turn make arrangements with exhibitors who have the facilities to exhibit the film in a public forum in order to generate revenue from ticket sales. Assuming that revenue is generated, a portion is transferred back to the distributor from the exhibitor after expenses are covered and a certain level of profit is realized. The distributor in turn transfers a portion back to the producer after his expenses are covered and profit is made. The producer's revenue can become financing for future productions along with investments made from outside bodies, which can and normally does include distributors or exhibitors.

The link between the producer and distributor is established by a financial agreement that specifically outlines the use of the film product and the terms for division of revenue. In this arrangement, the producer acts as the seller and the distributor as the buyer. While individual arrangements are numerous, generally agreements follow two main patterns:

2-I-A-i. The Net Deal

In the net deal, the distributor and producer share in the distributor's gross receipts from all sources of exhibition after the distributor has deducted his basic fee and expenses. These can include, but are not be limited to, advertising and publicity, making prints of the film, dubbing and any advance paid to the producer. An advance by the distributor is provided to the producer before or during production to be used as film financing. It helps to ensure the film is produced but is subsequently deducted from revenues the producer would have otherwise incurred. The revenues are recouped on a cross-collaterized basis such that losses in one market are offset against profits in another market. Thus, the success a film achieves in one market are is reduced by a loss in another market in order that the distributor recoups his investment and earns a profit. The terms of the arrangement will vary but generally in the theatrical market, the split will vary from 20 to 50 per cent for the distributor and 50 to 80 per cent for the producer (Weinzweig,1987:170).

This is the most common arrangement between distributors and producers but tends to result in lower profits, if any, for the producer (Pendakur,1985: 157). From the producer's standpoint, cross-collaterization is the disadvantage of this arrangement. This practice minimizes the distributor's risk since he can more easily recoup his entire investment first before the producer realizes a share in revenues.

2-I-A-ii. The Gross Deal

The gross deal, while more advantageous for the producer, is also much more difficult for him to secure. In this case, the producer negotiates for a lower percentage of the revenues but receives them before any deductions are made by the distributor. Revenues accruing to the producer will range from 20 to 30 per cent (compared to 50 to 80 percent under the Net Deal), but in this case, the producer is guaranteed a portion of the distribution revenue regardless of its performance in exhibition. Its benefits are explained by Weinzweig (1987:171) in "The Domestic Market", "Here, the producer would be receiving a significantly smaller piece of a much larger pie, as opposed (in the net deal) to a larger percentage of a smaller or perhaps non-existent pie."

2-I-B. Distribution-Exhibition Link

Subsequent to an arrangement between a distributor and a producer, the distributor seeks an exhibitor who will comply with the terms offered for the rights to exhibit the film. Now the distributor becomes the seller and the exhibitor becomes the buyer. At best, this arrangement is struck as soon as possible after the distributor makes his commitment to the film in order that marketing and publicity strategies can be planned.

The process begins with a letter sent by the distributor to exhibitors outlining the terms that will be expected of the exhibitor and his anticipated profit share. These terms may include: the film's minimum playing run, and an increasing share of the gross receipts for the exhibitor as the run progresses. These terms can vary from a 70/30 split (distributor/exhibitor) for the first week after the exhibitor collects 10 per cent of the box office for his expenses, "the nut", and may change weekly to where the split may eventually reach 35/65. Except for the most commercial films, the arrangements in Canada usually involve no minimum playing time with a 50/50 split in the first week and increasing for the exhibitor to 30/70 in subsequent weeks (Weinzweig,1987:175).

In principle, a system of bidding to exhibit films operates in Canada whereby various theatres present offers to the distributor who holds the license to the film. In practice however, no such process occurs, as individual distributors have aligned themselves with the two exhibition chains in Canada who receive all of their product. This practice is a product of the industry's vertical integration and will be explored in that section later in the chapter.

Exhibition markets are certainly not restricted to the theatrical. With the growth of pay-TV and home video, along with non-theatrical, network and syndicated television markets, the theatrical market now accounts for far less than 50 per cent of total revenues in the distribution sector. In fact, distribution revenues in 1985-86 amounted to $394.5 million in Canada, of which almost $130 million came from theatrical sources (Statistics Canada 1989a). Yet this market remains the key to success, for it can ultimately determine the film's demand and success in these other markets (Lewis,1986:181).

Significant to this flow of product and financing is the central role played by the distributor. This participant represents the link between the producer of film and the exhibitor who publicly screens or airs it. In maintaining this link the distributor provides a specialized activity requiring a unique awareness of the market audience and the ability to predict a film's success in these markets. Ultimately, the success of this activity is contingent upon the success of both the producer and the exhibitor and can in turn create their success.

> The life blood of any film distributor is a constant flow of product from the producer to the screen, and when there is any interference at either end of the line, the distributor can suffer greatly. Tc obtain good films is not enough. A distributor's success is ultimately measured by the box office receipts his films generate, so winning the select screens and the prime playtime is as important a function of film distribution as buying good product. (Kelly,1982:24)

2-I-C. Industry Composition

The following tables (Tables 2-1, 2-2, 2-3) indicate a recent national growth in both the number of operating distribution and production companies, but a national decline in the number of theatrical exhibition outlets in every province. The importance of production and distribution industries becomes evident in these tables particularly in the provinces of Ontario and Quebec, but also indicates the emergence of these industries in British Columbia and the Atlantic. These are growing industries. In Table 2-1, the figures do not represent companies that are solely engaged in theatrical film since in most cases, they will be involved in a variety of productions: television series, television commercials, music videos, and film shorts.

Table 2-1: NUMBER OF CANADIAN PRODUCTION COMPANIES BY REGION

Region	1983	1985-86
Atlantic	8	18
Quebec	119	116
Ontario	252	295
Manitoba	9	12
Saskatchewan	10	10
Alberta	41	34
British Columbia, Yukon and Northwest Territories	59	76
Total	498	561

Source: Statistics Canada (1989b,1985)

Table 2-2: NUMBER OF CANADIAN DISTRIBUTION FIRMS BY REGION

Region	1983	1985-86
Atlantic	0	2
Quebec	35	52
Ontario	59	80
Manitoba	2	2
Alberta	3	1
British Columbia	7	11
Canadian total	106	148
Foreign	6	4

Source: Statistics Canada (1989b,1985)

Table 2-3: NUMBER OF REGULAR AND DRIVE-IN THEATRES BY REGION

Region	1983	1985-86	1987
Newfoundland	26	16	
Prince Edward Island	11	10	
Nova Scotia	45	38	
New Brunswick	44	38	
Quebec	243	194	
Ontario	365	334	
Manitoba	63	57	
Saskatchewan	95	78	
Alberta	128	118	
British Columbia	136	122	
Yukon and Northwest Territories	3	2	
Total	1,159	1,007	898

Source: Statistics Canada (1989a,1989b,1985)

Theatrical exhibition, apparently feeling the competition from other markets, is suffering. Nationally 1,159 regular theatres and drive-in outlets represented a total screen count of 1800 in 1983, an average of 1.6 screens per theatre (Statistics Canada,1985). By 1987, only 898 theatres and drive-ins were in existence containing 1,661 screens. The trend indicates a significant drop, 23 percent, in the total number of outlets but a less significant drop in the number of screens, 8 percent. In 1987, fewer exhibition outlets are housing more screens than in 1983, an average of 1.9 screens per venue (Statistics Canada,1989a). Variety (1989:33) reported that Canada now has 800 film houses with 1,900 screens. The trend is following the American pattern documented by Thomas Guback (1987b:67). Guback discovered that in the U.S., the number of screens has increased and in fact there were more operating in 1986 than in 1948, but with much smaller seating capacity. In 1948, total national seating capacity was 11.7 million but in 1986, seating capacity was one-half at 5.12 million (Guback,1987b:69).

Awareness of the trends in exhibition are crucial for the distributor and producer in order to reasonably anticipate profit in each exhibition market. In addition, as the number of distribution and production firms have increased in Canada, coupled with the decrease in theatrical venues, this kind of exhibitor has greater control to choose the most lucrative film and bargain for more favourable terms leaving weaker production and distribution firms scrambling for the leftovers.

However, these tables do not demonstrate the foreign element that plays such a large role in the industry structure. Table 2-2 indicated that 6 foreign firms operated in Canada in 1983 and 4 foreign firms operated in 1986. These figures do not include American firms operating as Canadian branch-plants, which direct much of the industry's activities. These firms are considered Canadian distributors, but are owned and controlled by Hollywood studios. This will be seen more clearly in the analysis of vertical integration.

2-II. VERTICAL INTEGRATION IN THE INDUSTRY

Any film has uncertain demand in that market penetration and profitability can only be roughly estimated. While it has been shown that revenue guarantees may be elusive for producers, distributors and exhibitors, certain measures have been adopted in the industry in order to surmount this risk. One of the most important is certainly its trend toward vertical integration. Vertical integration can affect the content of the film itself[1], but really much of its influence extends well beyond what is shown on the screen.

Vertical integration occurs in an industry when companies expand by merging with their suppliers and distributors. This provides a structural advantage whereby companies are able to share the inherent risks of operations with those companies upon whom they depend to attain greater market control. (Masse,1986:8). In the film industry, complete vertical integration would entail the amalgamation of the production, distribution and exhibition elements of the market structure. For the film distributor, this guarantees a source of film to distribute and an outlet willing to exhibit the film all at the lowest possible price. The costs incurred throughout the flow of the film from production through distribution and exhibition are shared by all involved creating a cushion if one of the links experiences financial hardship.

In Canada, the fundamental structure of the industry is defined by vertical integration. This development has enabled the

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[1] Joseph R. Dominick (1987) explores how the content of film has become more homogenized as industry capital and financing have become more centralized.

film industry to surmount difficult obstacles and allowed it to prosper. That this integration occurs by non-Canadian production and distribution companies with exhibition outlets in Canada is the dilemma.

2-II-A. Integration of Production and Distribution

As alluded to earlier, Table 2-2 gave evidence of a small foreign presence in the distribution industry, however these firms are not the focus of the troublesome foreign influence. This table indicates that four non-Canadian distribution companies conducted business here in 1985-86, but does not differentiate the Canadian companies which are foreign-owned branch operations from Canadian owned and controlled distribution operations. Most significant in the case of American control, are the Majors: Columbia, MGM/UA, Orion, Paramount, Twentieth Century, Universal and Warner's each of which are affiliated with Los Angeles-based studios. The Canadian subsidiary's distribution operations provide access to Canadian screens for the parent's films, thus establishing an integrated production-distribution link.

Table 2-4: DISTRIBUTION OWNERSHIP VS. DISTRIBUTION REVENUE

	Ownership	Number	(%)	Revenue* $000	(%)	Average Revenue $000
1983						
	Canadian	93	83	94.4	31.6	1.015
	Foreign	19	17	203.9	68.4	10.732
1984						
	Canadian	88	81	97.8	29.5	1.111
	Foreign	20	19	233.7	70.5	11.685
1985-86	Canadian	136	89	170.7	42.0	1.255
	Foreign	16	11	236.0	58.0	14.750

* Revenue includes all sources

Source: Statistics Canada (1989b,1985)

An obvious and reasonable conclusion is that foreign distributors operating in Canada maintain control of the most profitable product. Table 2-4 demonstrates that Canadian distributors, while showing a recent surge of growth, must struggle harder for the revenues they earn. The revenues are spread out over a larger number of companies with the implication that little is available for each. In simple terms, this table demonstrates that significantly more Canadian distributors earn significantly smaller revenues than do their foreign-owned counter-parts. A test of the comparative rewards of Canadian and non-Canadian distributors in Table 2-4 underlines the tremendous gap between the revenues each can expect to incur. A comparison of the profit margins for these two categories reveals a decided profit margin advantage for the non-Canadian firms.

Table 2-5: REVENUE AND EXPENSES OF DISTRIBUTORS BY FINANCIAL CONTROL

Distributor	Total Revenue $000	Total Expenses $000	Profit	Profit Margin
1984:				
Canadian	97,803	92,000	5,803	5.9
Foreign	233,677	207,629	26,046	11.1
1985-86:				
Canadian	170,737	161,810	8,927	5.2
Foreign	235,992	205,867	30,125	12.8

Source: Statistics Canada (1989b,1985)

Even in 1985-86 when Canadian distributors earned over 50 per cent more revenue than the year previously, the benefits did not appear as profits. Foreign distributors registered a profit margin that doubled that of domestic distributors. Using this measure, the level at which Canadian distribution survives is precarious at best. By the nature of its independent structure, those non-integrated firms do not enjoy the cushion that can establish a more firm foundation. Their position is exacerbated since they must choose from only the least commercial product available after the Majors have turned it down.

Paul Audley has described the American Majors as "gate-keepers" determining which movies can enter the market and on what terms. "The U.S. majors are not at all interested in distributing films whose primary market will be in Canada. To the extent that they are interested in Canadian-produced films, they want films that are not recognizably Canadian and will be acceptable to mass American audiences" (Audley,1983:224).

2-II-B. Integration of Distribution and Exhibition

With regard to theatrical exhibition, two circuits dominate the Canadian industry: Famous Players and Cineplex Odeon. Famous Players is owned by Gulf + Western Inc., which in turn owns Paramount studios. MCA Corporation, the music and entertainment conglomerate controls 49 per cent of Cineplex-Odeon stock. MCA also owns Universal, providing an indirect form of integration but in effect no less complete. Each of the Majors retains an exclusivity agreement with one of these exhibition outlets: Famous Players shows all product from Paramount, Twentieth Century, MGM/UA, Warner's and Disney while Cineplex exhibits the films from Universal, Columbia and Orion (Daly,1989:41). In total, they are only seven companies but Table 2-6 displays their market control.

Table 2-6: REVENUE BREAKDOWN FOR FOREIGN AND CANADIAN DISTRIBUTORS

Theatrical Market	Canadian Distrib. $000	Cdn. Impact- All Mkts. (%)	Foreign Distrib. $000	Foreign Impact- All Mkts. (%)
1983:				
Canadian Product	5,700	(2.0)	0	(0)
Foreign Product	11,300	(3.8)	121,700	(41.3)
Total Theatrical	17,000	(5.8)	121,700	(41.3)
All Markets*	90,900	(30.9)	203,500	(69.1)
1985:				
Canadian Product	4,000	(1.0)	0	(0)
Foreign Product	13,500	(3.4)	111,900	(28.4)
Total Theatrical	17,500	(4.4)	111,900	(28.4)
All Markets*	162,000	(41.1)	232,500	(58.9)

* All Markets includes Theatrical, Free Television, Pay/Cable, Home Video and Non-Theatrical

Source: Statistics Canada (1989b,1985)

The above figures demonstrate that both Canadian product and Canadian distributors acquired only a small portion, 31 percent in 1983 and 41 percent in 1985, of Canada's distribution revenues from all markets. Focusing on the theatrical market of $138.7 million in 1983, Canadian distributors received $17 million or 12.3 percent of the market's worth. In 1985, the theatrical market was valued at $129.4 million of which Canadian distributors received $17.5 million or 13.5 percent. In both years, acquisition of foreign product was instrumental in Canadian distributors' operations in Canada as it contributed twice as much to revenues as did Canadian product. Apparently, foreign distributors could not be bothered with Canadian product as all of their revenue were derived from foreign product. By 1987, Canadian distributors handled 95 per cent of Canadian feature film, but were still able to claim only a marginal position in the marketplace (Kelly,1987:14).

Foreign distributors received a larger proportion of their revenues from the theatrical market than did Canadian distributors. That is, 19 per cent of Canadian distributors' market revenues were made in theatres in 1983, whereas foreign distributors made almost 60 per cent of their revenues in this market in Canada. Similarly in 1985, theatrical revenues for Canadian distributors comprised only 11 percent of their earnings and only 48 percent for foreign distributors, a sizeable drop for each. Presumably the rapid growth of ancillary markets in this time period is a major contributing factor. The Canadian distributor is more reliant on ancillary markets where with less integration, the opportunities for exhibition are greater.

Of the 1661 screens operating in Canada, 468 are owned by Famous Players and 590 are owned by Cineplex Odeon making it the largest theatre chain in the country (Variety,1989a:33). Only a marginal percentage of theatres remain independently owned operations in Canada and for their independence are denied access to first-run studio product until well after its appearance at either of the major circuits. By this time they are in stiff competition with ancillary markets (particularly home-video and pay-TV) which receive the product generally about six months (and sometimes sooner) after its theatrical appearance and are able to offer it to the public at a lower price.

As a result, independently operated theatres in small towns and rural areas have been most vulnerable to these pressures in the 1980s. In the 1980-87 period, 31 percent of Canadian theatres went out of business with small towns and rural areas accounting for nearly two-thirds of that decline (Statistics Canada,1989a). As Table 2-7 shows, the larger the operation, the better the bottom line. This table groups theatres according to revenue groups and illustrates how profit margins increase with an increase in operation size.

Table 2-7: REVENUE AND EXPENSES OF REGULAR THEATRES BY REVENUE GROUPS

Revenue Group	No. of Theatres 1983	No. of Theatres 1986	Total Revenue* $000 1983	Total Revenue* $000 1986
less than $50,000	119	100	3,285	3,051
$50,000-249,999	345	257	43,137	33,483
$250,000-499,999	190	174	67,792	63,646
$500,000-999,999	160	151	114,508	107,855
$1,000,000 and over	85	106	139,956	174,143

Revenue Group	Total Expenses* $000 1983	Total Expenses* $000 1986	Profit (Loss) $000 1983	Profit (Loss) $000 1986
less than $50,000	3,381	3,366	(96)	(315)
$50,000-249,999	42,738	33,905	399	(422)
$250,000-499,999	64,894	63,243	2,898	403
$500,000-999,999	99,913	99,308	14,595	8,547
$1,000,000 +	115,542	152,355	24,414	21,788

Revenue Group	Profit Margin % 1983	Profit Margin % 1986
less than $50,000	(3)	(10)
$50,000-249,999	1	(1)
$250,000-499,999	4	1
$500,000-999,999	13	8
$1,000,000 +	17	13

* Revenue includes admission and concession receipts. Expenses includes salaries and benefits, film rental and royalties and cost of goods for resale.

Source: Statistics Canada (1989b,1985).

The table illustrates that the largest revenue group experienced the highest profit margin. Using the rule of margins as an indicator of stability, an increasing level of revenue led to increasing stability. The largest revenue group also was the only group that had real growth in number of theatres during a period when other theatres were closing their doors. This is a result of the integration and exclusivity agreements between foreign distributors whose pictures appeal to a world-wide audience and the theatrical circuits in Canada represented by the largest revenue groups. The effect is apparent: that the smaller theatres operating with low to negative profit margins, can only exist for so long.

The Canadian independent distributor is caught on both sides. Integration of production and distribution has prevented this distributor from acquiring lucrative foreign product to any substantial degree since branch operations of the Majors operating in Canada receive it. Integration of distribution and exhibition can prevent product which he does acquire from being screened since arrangements between foreign distributors and exhibition chains tie up most screen time. The structure of his own domestic market, particularly for film, is such that he is incapable of being an important or significant participant.

2-II-C. Effect of Vertical Integration

Forty years ago, the U.S. Justice Department acknowledged the dubious impact vertical integration had upon the industry. In its final judgment of the infamous "Paramount Case" of 1949, it stated: "The percentages of first-run theatre ownership and domestic film rentals controlled by the major defendants when coupled with the strategic advantages of vertical integration created a power to exclude competition from the distribution and exhibition markets when desired." (Conant,1960:55)

Moreover, the real threat to the industry was the patterns of trade which this domination imposed:

> As a result of theatre control, the five majors were able to control distribution even though they released only about 40 per cent of all features. The three minor defendants - Columbia, Universal and United Artists - and the other smaller distributors had to accede to the marketing patterns dictated

by the five major circuits in order to sell films to them, a necessity if picture costs were to be recovered. (Conant,1960:55)

The control is as complete in Canada today as it was at the time of the Paramount decrees. With corporate ownership of distribution tied into production studios connected by ownership of, or exclusivity agreements with theatre circuits, the vertical structure is more than sufficient for the few Majors to govern industry activity suppressing Canadian distributors' ability to purchase and license Canadian film.

The real advantage for vertically integrated distribution firms is to provide leverage with producers and exhibitors. Backed by extensive financial reserves, they can offer any producer large financial advances in return for distribution rights with a promise of enormous promotional campaigns and access to the crucial U.S. market (Lewis,1986:175). The exhibitor's advantage is that foreign distributors can continually provide a substantial quantity of profitable film. This assures these distributors' films will receive better play-dates and box-office settlements maintaining a strong relationship among all parties (Cinema Canada,1988e:35).

> This situation is not isolated to Canada. Vertical integration creates economies of scale where success seems to increase exponentially. Improved distribution networks, centralization of management functions leading to greater efficiency and lower operating expenses, along with monopsony power (purchasing in larger quantities creating lower per unit costs), all make for a firm that can operate more cost-effectively (Gomery,1984a:68).

In "Film and Business History: The Development of an American Mass Entertainment Industry", Douglas Gomery analyzes the Publix exhibition chain which operated in the United States and Canada in the early part of this century. A tight organization with highly centralized operations maintaining strict control, Publix was the leader in theatre exhibition during its time. This enabled the chain to take advantage of new technology in concession, projection and air-conditioning equipment and utilize marketing research to increase its corner of the market.

In fact, these principles are so firm that the Majors' distribution network extends world-wide. In international trade the Majors' interests are represented by the Motion Picture Association of America (MPAA) which presents a consolidated front to foreign national interests and provides a forum for co-operative distribution ventures amongst its members.[2] Recognizing the importance of the export market, situating representatives abroad ensures exhibition in foreign markets.

But for the health of the Canadian film industry overall, the most devastating effect of foreign distribution in Canada is the repatriation of revenues made in Canada. Returning to the diagram of the flow of film and finances, the industry functions on continual financial involvement in the initial stages of production by distributors. This ensures on-going production and the marketability of the product.

For example, of the 350 films produced in the United States in 1984, only 15 per cent were profitable in the theatrical market. The accruing reinvestment of these profits as entrepreneurial financing into film projects was sufficient to allow the industry

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[2] The Webb-Pomerene Act of 1918 while preventing domestic combinations, sanctions foreign activities in what Conant describes as a cartel.

to continue (Lewis,1986:17). Importantly, each of these 350 films was not profitable, but of the 50 that were, the reinvestment of these profits back into production was adequate to continue industry production. Conversely, films can be financed individually with project-by-project financing. This arrangement forces the producer into an insecure position since the distributor's willingness to licence the product and access to screens in exhibition would always be in doubt.

Entrepreneurial and project-by-project financing are the two methods by which films receive investments (Lewis,1986:16). If few revenues are made by the distributor, he does not have the stability nor the capital reserves to provide advances to continue the flow of entrepreneurial financing. The distributor must resort to project-by-project financing. Most often this is the reality for Canadian independent distributors. Yet the Majors who earn significant sums at the box office in Canada return these revenues to the United States for reinvestment in film production in that country. The result is that the current vigorous revenues in ticket sales at the Canadian box-office departs to the U.S. to produce more films by the Majors.

2-II-D. Integration in Canadian Independent Distribution

While integration of foreign distributors operating in Canada has effectively worked to the detriment of our industry, it would appear that a similar trend is moving amongst Canadian distributors. Some would argue this is the only way independent distribution will exist in Canada.

Brian Lewis (1986:44,46) categorized Canadian independent distributors in three "classes": Canadian Nationals, Canadian Regionals, and Regional Specialty distributors. The largest, Canadian Nationals, are active across the country, competing directly or indirectly with the Majors. The key to their success is flexibility in order to secure new product and gain access to domestic and export markets in all forms of exhibition thereby attracting the largest audience. Many of these firms have adopted a certain degree of vertical integration by setting up production arms in order to achieve these objectives.

Secondly, the Canadian Regionals are primarily those distributors operating in Quebec because of its unique market characteristics. Distributing a diversified mix of products in a market which they know very well enables them to survive within the company of the Majors. The main problem for these firms is finding screentime for their films. Some of these regional distributors are closely affiliated with larger companies.

Canadian Specialists operate on a temporary basis in the market. They may form to distribute one film or at most distribute a very limited product line to a very limited market.

Two classes of Canadian distributors, the Nationals and Regionals, have achieved a certain level of integration in order to maintain a share of the market. By guaranteeing a source of product, they too can enhance their leverage with exhibitors, thereby improving theatre dates, locations and settlements. Table 2-8 demonstrates the improved profitability of larger Canadian firms. In this table, distributors are grouped according to revenue and large Canadian distributors have been grouped with the Majors.

Table 2-8: REVENUE AND EXPENSES OF DISTRIBUTORS
BY REVENUE GROUP

Revenue Group	No. of Firms		Total Revenue $000		Expenses* $000	
	1983	1986	1983	1986	1983	1986
less than $50,000	44	63	3,713	6,203	4,215	6,400
$250,000-999,999	35	46	18,113	28,374	15,694	25,860
$1,000,000 and over	33	43	276,510	372,152	241,133	335,417

Revenue Group	Profit (Loss)		Margin %	
	1983	1986	1983	1986
less than $50,000	(502)	(197)	(13.5)	(3.2)
$250,000-999,999	2,419	2,514	13.4	8.9
$1,000,000 and over	35,377	36,735	12.8	9.9

*Expenses includes salaries and benefits and royalties and rentals
Source: Statistics Canada (1989b,1985)

In 1983 and 1986, the two larger revenue groups switched position in terms of profitability measured by their profit margins. This implies that the largest revenue group does not necessarily guarantee the largest profit margin, but a clear case against small operations is shown by a consistent loss within this group each year[3].

The most obvious example of Canadian integration is that of Cineplex Odeon. Its distribution arm, Cineplex Odeon Films

[3] While the profit of this group stayed in negative numbers, it was the only one to improve its position in 1986; increasing its profit margin a full 10 percent. Each of the other groups decreased in this measurement.

(formerly Pan-Canadian Film Distributors) is the largest independent distributor of commercial and specialty films in Canada. It is now active in the U.S. and operates in all exhibition markets including theatrical, pay-TV, "free-TV", and home-video. Moreover, Cineplex Odeon Films International was recently established to concentrate on foreign market distribution of Cineplex Odeon Films. With regard to production, Cineplex Odeon owns Toronto International Studios, Canada's largest studio facility, utilized primarily for U.S. productions. Cineplex Odeon also formed ventures with the U.S.-based Wildwood Enterprises to form North Fork Productions and with New Century Entertainment of Los Angeles. To complete a fully integrated structure, Cineplex wholly owned The Film House Group Inc., Canada's largest motion picture and post-production facility (Drabinsky,1988:5-6). However, it recently sold 49 per cent of this facility to Rank Organization for U.S.$73.5 million with a one-year option to buy the remaining 51 per cent for $76.5 million (<u>Cinema Canada</u>,1989c:33).

As a follow-up to her article "Lament for an Industry," Virginia Kelly (1987:12) wrote in "Against All Odds": "It is not accidental that today, among the distributors who have survived from the early years, the strongest are those with integrated production capacities. Nor is it a coincidence that the new, stronger Toronto based distributors are now also vertically integrated". For example, the production arm of Norstar Releasing is Simcom Productions. Daniel Weinzweig, President of Norstar, stated that they have made agreements with Famous Players for screen-time for their products (Weinzweig,1989:personal interview). By no means is this firm unique, for many production-distribution partnerships abound in Canada: Cinepix/ICI, Malofilm Group, Alliance and Alliance Releasing, of which Cineplex Odeon Films owns 25 per cent.

Seven years ago, Weinzweig was committed to a belief that the only way a viable and independent distribution industry could exist in Canada side by side with the Majors is through vertical integration (Kelly,1982:25). Today not only is he committed to this belief but feels that this is inevitable:

> In the not too distant future, there will be a handful of powerful vertically integrated distribution companies who invest heavily in production and have world-wide markets. At the other end will be a number of smaller boutique-style distributors handling smaller, artistic style films that are important. But there will not be many people in between these two extremes. The stand-alone distributor is already a thing of the past. (Weinzweig,1989:personal interview)

Not all are as sure that a vertically integrated structure would benefit the Canadian industry.

> The argument that Canada needs its own vertically-integrated Majors to compete in a market dominated by American Majors is undermined by the present reality. Now that Canada finally has its own domestic Major, the marketplace is no more hospitable for smaller Canadian firms than it was before. "Our" Major seems to behave very much the way "theirs" do, and exclusivity arrangements seem to remain the status quo. Vertical integration constitutes a roadblock for the industry as a whole. The financial stability it affords those few firms able to achieve it, comes at the expense of all the smaller firms denied access to products and screens. (Lewis, 1986:232)

Certainly, much of the preceding analysis justifies this present reality. But what of its future structure? A more thorough investigation throughout the remaining chapters will consider this issue.

The evidence regarding the plight of Canadian distributors substantiates the following point. The integrated structure of the foreign Majors has created a vicious circle for the Canadian independent film distributor; "They can't get product so they can't get screens and if they can't get screens they won't attract product" (Kelly,1982:25).

2-III. PRODUCT DIFFERENTIATION

The product of the industry, the film, is much more than celluloid that has undergone lab treatment in post-production. It is in fact a result of a series of several ingredients mixed creatively: the story, the actors, the setting, the direction, the costumes and make-up and the camera work that combine successfully or fail miserably. It is true that audience response cannot be predicted absolutely for a film but instead a measure of its potential can be surmised through an educated guess. In 1960, Michael Conant (1960:6) wrote," the elements of a movie are interdependent and together make for the movie's success. There is a need for continuous product differentiation in films and for novel and creative ideas that are more important than formulas."

Thirty years ago, unique films may have been the key to attracting an audience. Certainly creativity is important in any artistic endeavour. However the signs of today's times indicated by movies screened in North American theatres show a creative decline and a trend toward homogenization of content, style and theme.[4]

Movie-making is characterized by demand uncertainty since there is no assurance the public will buy it (Dominick,1987:136). Relatively low-budget films made by unknown directors with unfamiliar stars (such as "Crocodile Dundee", released in 1986), can be an instant hit, while the blockbuster "Ishtar," with two megastars in its cast and financed with the largest movie budget

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[4] Joseph R. Dominick (1987) presents the results of a study conducted to determine if film content varies with a changing financial climate.

at its time, did not last long in the theatres.

Thus, while the demand for any film cannot be predicted, development of the industry structure through vertical integration is an attempt to control the inherent risk. The dominance of the major American studios gives the financial and political clout to oversee what films receive screen-time. As firms carefully watch theatres to see which films are the most successful, a trend toward similar films becomes a by-product of the system in order to replicate the accomplishment. Firms watch each other carefully for new ideas and if proven successful, are quick to imitate them in order to capture some of the lucrative profits. The initiating firm then can lose a considerable share of the market to other firms who have copied its ideas. The prevailing formula will continue until a new combination of film elements is well-received by the public giving market control to the creative initiator for a time once again. In practice, this structure combines with uncertainty of demand and can practically routinize film.

This may lead to denial of screen access for the independent producer. While the distributor takes the greatest financial risk in bankrolling a film, he will undoubtedly be reluctant to back new ideas or creative personnel that do not have a proven track record. The independent producer's potential for a distribution contract with a Major distributor is minimal.

However, in Canada there are numerous independent distributors who historically have invested in these less formulaic and more esoteric productions. But as has been explored, the vertical integration structure of the industry denies to these distributors, access to prime theatres at a potentially profitable time. The ability of Canadian distributors to acquire this product is becoming increasingly questionable. While these films, which have been the foundation of Canadian distributors' operations, have achieved a certain measure of success, they have become attractive to the Majors and an important part of their operations. Pendakur (1985:171) reports that the number of in-house films released by the Majors decreased from 83 in 1980 to 75 in 1984 while the number of independent productions they released (known as "pick-ups") doubled from 37 to 74 over the same period.

> Over the last three years, the Majors have consolidated and strengthened their positions over the independents (in the United States as well as in Canada). They have either bought or produced the kind of pictures that once kept the independents in business: the exploitation picture. Low-budget, independently made "B" type films like "Airplane", "Friday the 13th", "Prom Night", and "Hallowe'en", became the largest money-makers and the Majors were quick to put themselves in a position to benefit from this situation. (Kelly,1982:24-25)

A contributing factor crucial to the Majors' encroachment into what used to be the independent distributors' domain were rising costs in both production and distribution. As the costs to make a major studio film increased, the lower cost to acquire independent productions became more attractive. The initial financial outlay is less with these productions since the distributor is not the only backer of the film and the potential to recoup all of the investment across all markets is greater. At the same time, the independent distributor encountered increasing costs of advertising and making of prints which created a need to ensure that films could succeed. Risks had to be justified for the firms' survival so an assurance of market rewards had to be in place. But the Majors' ability to provide larger advances or guarantees and bigger promotional campaigns, leverage, ensured their access to independent films that had once provided the survival of Canadian distributors.

For the independent producer the Majors' involvement may seem advantageous, however it is not always a bed of roses. With their financial commitment, the production can assume more grandiose proportions to give it the appearance of the "Hollywood style." The producer's original intent for a film with a simple appearance are overshadowed by the ideas of the Major. Speaking to this, John Dunning commented on how his plans for "Road Warrior" changed once Columbia became involved. The budget for the film rose from $4 million to over $7.5 million with Dunning effectively losing creative control and eventually walking away from the production. (Pendakur,1985:168). Therefore, independent productions have assumed a more formulaic approach and in order to attract a distribution commitment by a Major, are less inclined to advance more provocative viewpoints.

The industry is now witnessing a more conservative approach to film-making. The "blockbuster" movie is a result of this fact where less money is spent on film experimentation and more on a film that can duplicate success (Dominick,1987:151). The need to export films in order to recoup investment demands a universal appeal. The product must be able to attract a mass audience where its content, theme and style can be appreciated by most people in most places. That relatively few films, foreign or domestic, are given wide release in North America if they have not had studio involvement attests not only to their control over the theatres, but also to the importance placed on products with a mass appeal.

2-IV. BARRIERS TO ENTRY

As harmful as vertical integration is, its effects are compounded with the introduction of horizontal integration. Similar in approach in that it combines an entire series of firms, horizontal integration merges firms producing the same range of commodities. The companies are able to attain an optimal size for economic efficiency, can improve the spreading of risks and cross-subsidize product lines (Masse,1986:8). For example, in the film industry, were producers to amalgamate such that all film was created by one large studio, theoretically greater utilization of studio space and equipment would result; losses incurred in unsuccessful films could be offset by successful products and experimentation with new and expensive technology could be possible because of pooled financial reserves.

Like its vertical counter-part, the goal of horizontal integration is to reduce risk in an uncertain market with unpredictable demand. Its attraction is that it provides a product at the lowest possible price to consumers since it is able to take advantage of streamlined operations. Therefore, many of the advantages felt by firms in a vertically integrated structure are enhanced through horizontal combinations of firms conducting the same type of business be it production, distribution or exhibition. "Vertical integration in itself cannot create monopoly power; market power and the consequent ability to influence price and entry must be measured horizontally at any given level of distribution" (Conant,1960:207).

The control which foreign distributors maintain in the Canadian market has already been noted. Essentially this control denies theatre access to the independents. This represents a horizontally integrated distribution sector. It has also been shown that foreign product, the least risky and most profitable, has exclusive first-run in those theatres associated with the Majors' operations. Independent cinemas exhibiting unprofitable product are faced with two alternatives: end their operations or join the major theatre circuits. "Vertical combinations lead to horizontal combinations that exclude the pictures of independent producers from large theatres, and, by withholding their own pictures from independent exhibitors, force them to sell out to major theatre circuits" (Conant,1960:1).

In 1985, The Report of the Film Industry Task Force (1985:45) highlighted this practice as one of the major obstacles encountered by the independent distribution sector. It stated: "By controlling distribution of the most lucrative productions, the company consolidates its position as an exhibitor. It is in a position to limit competition in exhibition and cause difficulties for other chains, mini-circuits and independent theatre-owners. The last two are then vulnerable to buy-outs or takeovers".

While advantages are enjoyed world-wide by the Major distributors, their industry control occurs more easily in Canada because of its small market size and widely dispersed population. This prevents the establishment of firms that can operate as efficiently or that can utilize economies of scale to the extent of the capabilities of the foreign Majors. The distribution firm simply cannot receive a sufficient return to offset its costs. The Canadian box-office accounts for only 10 per cent of the North American market and the best a Canadian film can expect to do at home is to recoup 20 per cent of its budget (Tadros,1988:16). While the export market may appear lucrative, a film will have to do exceptionally well abroad to break even.

The Canadian situation differs greatly from the American market where a high-budget studio release that enjoys box office success can expect at least a 50 per cent return. Once released into the export market, the balance is practically assured since the product is well-promoted and well-known.

The combination of foreign integration in a market insufficiently large to sustain a reasonable level of business activity and geographically situated beside its major competitor is devastating for the film industry. Marcel Masse, the federal Minister of Communications, acknowledged in 1986 that these structural weaknesses were really at the heart of the problems for Canadian distribution.

> The small size of the Canadian market in comparison with such large Western markets as those of the United States, France and United Kingdom is a barrier to the ability of Canadian-owned cultural firms to achieve sufficient economies of scale to become viable. This barrier is heightened by the dominance of Canadian cultural markets by vertically and horizontally integrated foreign firms, which prevents the Canadian-owned private sector from having full access to its market. (Masse,1986:8)

Because of the control exercised by the Majors over the Canadian industry, they consider the Canadian market as part of the U.S. domestic operations. That is, when the Majors obtain distribution rights for independently-produced film, the rights to distribute in Canada are negotiated as part and parcel of the American territory. For film distribution, Canada is considered a part of the U.S. and the Canadian distributor does not have the opportunity to negotiate the rights for Canada separately. In addition, when the principle is applied in reverse, Canadian distributors cannot treat the U.S. as part of their territory. If they obtain rights for a film in Canada, the rights to distribute south of the border are negotiated separately.

The territorial discrepancy further prevents access to commercially viable films for Canadian distributors, of which only a few would be necessary to provide industry stability. "A few 'very good' films can make a very good year. A few 'very good' years can eventually lead to increased capitalization, to expansion, to increased investment in production, better promotion, and better products-- in short, to more structural stability" (Lewis,1986:182). With access to these films, the revenues earned in Canada would stay in Canada to be reinvested in film production, enhancing the entire film industry by providing an on-going flow of capitalization. The trend of increasing the number of "pick-ups" over in-house productions by the Majors, previously noted by Pendakur, suggests a further erosion of Canadian activity in distribution.

2-V. SUMMARY

The flow of film and revenue between producers and distributors represents, as Daniel Weinzweig (1989:personal interview) describes, a "marriage," where its success is contingent upon responsive exhibition. The structure of the film distribution industry discourages the full participation of Canadian independent distributors, resulting in a breakdown of the union.

Overwhelmingly, Canadian distributors outnumber foreign companies active in Canada, but these distribution companies, the Majors, have established a dominant position through vertical and horizontal integration. With exhibitors, exclusivity agreements guarantee exhibition of product whose production was financed largely through their own studios. In addition, both major circuits in Canada are at least partially owned, if not in total, by one of the Majors. This creates anti-competitive conditions against the independent distributor and denies fair access to theatrical exhibition, the most important market of all. Without a potential for revenue, the distributor cannot reinvest into production and the system breaks down.

Film itself suffers. The industry is led by a concentration of a few large firms creating a similarity in content and style. Unique films are undesirable since the system is unprepared to market a unique film. Market conditions work to the disadvantage of Canadian distributors. Therefore beginning with the very structure under which the industry operates, public intervention should be directed toward redressing this situation; tipping the scales to assist domestic distributors. Both federal and provincial levels of government have jurisdiction in the film industry and can implement these policies. Since the effects of the problem affect all regions of the country, it is a national problem requiring national solutions. Moreover, that both levels of government must coordinate their policies to achieve effective solutions is an understatement; inter-provincial activity must be mutually supportive as the industry's inherent structural discrimination is not only national, it is international.

CHAPTER THREE

CONDUCT OF FILM DISTRIBUTION FIRMS:

CARVING A NICHE

INTRODUCTION

As pointed out in the previous chapter, the film industry is comprised of three sectors, each interacting to ensure a continual flow of product and to provide industry stability. Where production is largely responsible to initiate the supply of film products and arrange financing, and exhibition provides the outlet for public viewing, distribution plays a unique role in the middle requiring acute awareness of the needs of the other players. Most importantly, its relationship with the production sector, described by Weinzweig (1989:personal interview) as a "marriage," is fundamental to industry vitality. As illustration, Lewis (1986:27) states that the only index of the contribution made by the distribution sector to the capitalization of the film industry is the amount of revenues that flow back to the production sector in the form of royalties, commissions, distribution advances, direct investments, etc. This of course is contingent upon the particular distribution firm's ability to gain access to exhibition outlets in order to gain revenue.

The influence of foreign vertical integration substantially prevents this access. Industry flow of finances and films is interrupted which can eventually lead to the disintegration of the traditional structure.

> The presence and the attractiveness of American productions is not the problem. It is rather the domination by American-owned and -controlled companies of the distribution in Canada of not only American, but virtually all foreign films. This situation must be remedied, because it is retarding the growth of our industry, which is caught in a stunted industrial structure, whose market is owned and exploited by

> foreigners, and without the necessary links between production and distribution
> (Report of the Film Industry Task Force,1985:14)

The previous chapter has indicated how the structure of the film industry in Canada prevents the production/distribution relationship from prospering. This chapter will demonstrate how the conduct of distribution firms influences and is influenced by market structure, suggesting that both firm conduct and market structure are mutually supportive.

While each distribution agreement will have its own unique clauses, most follow one of two methods. When a production company negotiates distribution rights, it has the option of granting world rights to a Major with its extensive branches or granting to independents more limited rights with territorial licenses.

For the Canadian distributor neither of these arrangements is realistic. Their overriding concern is that the American Majors consider the Canadian market as part of the U.S. market, denying the ability for Canadian distributors to secure rights to independently-produced pictures. According to Daniel Weinzweig (1989,personal interview), the Majors are willing to provide a significant proportion of the production budget to an independent producer in exchange for the territory of Canada and the U.S.: "Without the granting of the Canadian market, they won't grant the American market either and in many cases the sum of money is just too attractive to turn down."

Combine this elementary characteristic of the negotiation process with the very real costs of production, which have increased ten-fold in the last ten years (Adilman,1986:209). An independent producer must rely on distributors to put up substantial guarantees to provide production financing. Small firms, and in most cases this includes Canadian firms, may not have a sufficient capital base, and this necessitates the involvement of a Major distributor (Adilman,1986:218).

The process is self-perpetuating. Structural realities depend upon market conduct to institutionalize their existence, while the conduct of each firm, according to the model, occurs because of the industry structure; one is not isolated from the other. This chapter will examine how firms conduct their operations through:

1. pricing behaviour
2. marketing strategy
3. research and innovation
4. advertising and
5. legal tactics

and shape the structure and composition of the industry.

3-I. MARKETING STRATEGY

In the previous chapter, demand uncertainty in the production of any film commodity was shown to be an important element in the development of the structure of the industry. Audience reaction is difficult to predict because it is the combination of many ingredients which leads to a film's success. Once the film is produced, the most important marketing consideration is a film's perishability. That is, a film has decreasing monetary value the longer it takes to release it subsequent to its completion. "The unique nature of each film, combined with the very short earning life of most, means that success or failure is determined by the end of the major first-run showings, all of which take place in the first four to six weeks of exhibition" (Conant, 1960:2). It is incumbent upon the distributor to plan marketing strategies for a film immediately upon agreement with the producer and determine the most appropriate strategies for the film's exploitation.

3-I-A. Marketing Elements

The marketing concept means that an organization directs all its efforts toward achieving customer satisfaction profitably. In this sense, the firm attempts to produce what customers desire instead of trying to sell them the goods or services it has produced (McCarthy et al,1986:37). In order to accomplish this, the firm develops a marketing strategy specifying its target market and its related marketing mix. The target market is a fairly homogeneous group of customers to whom the company wishes to appeal, for example, North American middle-class teenagers. The marketing mix consists of those controllable variables which the company compiles in order to satisfy the target group (McCarthy et al,1986:44). Within this definition is the critical qualifier "controllable" since no marketing strategy will be able to influence, much less identify, all variables which impact a consumer's decision to purchase. These variables are the "Four P's" of marketing:

1. Product: Developing the right product for the target market.
2. Place: Ensuring the right product gets to the target market.
3. Promotion: Telling the target market about the "right" product.
4. Price: Developing profitability to which the market will respond.

None of these elements are developed in isolation but must be considered simultaneously to ensure an effective mix. Furthermore, no element is more important than any other; if one element is ineffective it will have consequences for the whole marketing mix. Accordingly, if distribution is a weak or, perhaps in the Canadian case, non-existent link in the chain, the other "P's" will suffer.

> We develop a Product that we feel will satisfy the target customers. We find a way - Place to reach our target customers. Promotion tells the target customers about the availability of the product that has been designed for them. Then the Price is set after estimating expected customer reaction to the total offering and costs of getting it to them. (McCarthy et al,1986:49).

As this research study focuses on distribution or Place in the marketing mix, Product, Price and Promotion will be targeted to assess their impact on Place.

The first consideration is to identify the target market in which the film will be released. Weinzweig (1987:165) outlines the markets and their order of exploitation in "The Domestic Market" in the following manner:

1. Theatrical release: six-month window
2. Home-video release: six-month window
3. Pay-TV: twelve-month window plus three-month black-out period or
   Network TV: two to three year window
4. Syndicated television

A window refers to the period of time in which the purchaser has the exclusive right to exhibit the production.

This represents the usual pattern of market exploitation by which the products will reap the most rewards. When developing the mix for theatrical release, the marketer must consider many related components for his plan, primarily theatre locations and associated attendance. Examining recent exhibition data (Statistics Canada, 1989b) reveals three trends:

<u>3-I-B. Trends in Canadian Theatres</u>

i. Theatres Close amidst Competition

In 1986-87, 898 motion picture theatres were in operation in Canada. There has been an average annual drop of six percent in the number of theatres since 1980-81. Nearly two-thirds of the theatres which were closed were located in small towns and rural areas. Theatre closures do not indicate a lack of interest in films.

On the contrary, consumers appear to be using different sources. By the fall of 1987, 51 percent of Canadians over the age of two had access to a video-cassette recorder in their homes, compared to 13 percent in the fall of 1983. Over three million Canadians over the age of two had access to Pay-TV channels in the fall of 1987, an increase of 90 percent from the fall of 1984. The average family expenditure on motion picture showings dropped 16 percent to $41 per annum in 1986 from $49 in 1984. Over the same period, family spending on home entertainment equipment and services was up 19 percent.

ii. Decline in Theatre Attendance

In 1986-87, motion picture theatres in Canada reported total attendance of 76.1 million, a 24 percent decrease since 1980-81. In 1983-84, annual attendance was 86 million. The decline in attendance occurred in all regions of the country, but was sharpest in the Atlantic region and Quebec where attendance fell 33 percent. Ontario and British Columbia were affected the least with a 21 percent drop in attendance.

iii. Urbanization of Theatres

In Canada, attendance at movie theatres is concentrated in large and medium-sized metropolitan areas. In 1986-87, nearly half of the total number of theatres were located in these areas and they accounted for three-quarters of total attendance.

Three-quarters of the theatres, belonging to large chains, were located in large and medium metropolitan areas. These large chain theatres have advantages associated with multi-screen theatres and generally exhibit the most commercially attractive first-run films.

In 1986-87, nearly one-quarter of the regular theatres were located in small metropolitan areas and they accounted for 15 percent of the total attendance. One-quarter of the total number of regular theatres were located in small towns and rural areas but they accounted for only 10 percent of total attendance.

Over the 1980 to 1987 period, attendance at theatres located in large and medium metropolitan areas dropped by 10 percent, whereas the decline was 39 percent for theatres in small towns and rural areas. Relative to their counterparts in metropolitan areas, exhibitors in towns and rural areas generally face increased competition from home-video. This is because of the delay between a film's release in large metropolitan areas and its release in small towns and rural areas.

3-I-C. Directing Exhibition Trends

i. Screen Access

Motion picture attendance in Canada has become a very urban phenomenon. But this is not to imply that it is accessible even in these locales. Theatre closures are occurring in urban areas, particularly for independent owners who do not have the financial muscle to attract lucrative films before they are available in secondary release.

According to Weinzweig (1987:176) and substantiating the model for the total marketing mix, " It is absolutely crucial to the success of a theatrical release that the correct decisions have been made about the most appropriate theatres for the picture and the most appropriate opening date." An industry rule of thumb states that traditionally the most profitable periods for theatre attendance are Christmas (approximately the middle of December to the end of January) and the summer and Easter periods when school is out and the greatest number of potential movie-goers is available.[1]

These are exactly the times when American films occupy the screens. American films take priority on Canadian screens, given a vertically integrated industry with Major distributors tied to

[1] Current release patterns suggest that the Majors may be changing traditional schedules and moving to more even "spreads" where the big releases are not concentrated in holiday periods (Cohn,1990:5). Concentration of new releases at Christmas is being overlooked in favour of a more even release schedule in the early months of the next year. Since this trend is so new, it is difficult to predict what the implications are for Canadian films.

exhibitors through ownership or a system of exclusivity agreements. The worst periods to release a film are early December and the months of May, September and October, and these are the only times when Canadian distributors are able to get screen access. Further, Lewis (1986:191) states: "The situation is even more complicated; not only do Canadian films find screens during periods of reduced attendance, but if they do manage to begin a successful run, they will usually be bumped from the screen to make room for a new U.S. release as the Easter, Christmas or summer season approaches."

The situation is a result of the process of exclusivity agreements between Major distributors and exhibitors. In general, according to marketing theory, centralized distribution of goods is economical and helps to control prices (McCarthy et al,1986:48). The process of exclusivity agreements may work well for the participating exhibitor, distributor and, to a lesser-degree, the consumer (since wholesale prices paid by the exhibitor should be passed on). But the problem with this risk-reducing arrangement is that the films of excluded producers are not screened, the excluded distributors cannot find major screens to put their products on during the lucrative periods, and the excluded exhibitors cannot compete for popular products to put on their screens (Lewis,1986:192). In other words, it is a success for all involved, but Canadian distributors are not among this select group. Nat Taylor, formerly of Cineplex Odeon, said of this arrangement that the "independent must slip in his product between the raindrops" (Kelly,1982:24).

The situation came to light in Canada in 1983, when the then fledgling and near bankrupt Cineplex chain found itself incapable of acquiring major releases which it needed to provide a measure of profitability and stability. Garth Drabinsky compiled evidence against the Majors and convinced the Canadian government that strong grounds existed for launching an investigation into the existence of a conspiracy. Faced with possible sanctions, the U.S. distributors modified their stand and agreed to system of competitive bidding that would ensure more equitable access to their films (Lampel and Shamsie,1989:18).

In the new system of bidding, each distribution company would invite bids on every new movie from Famous Players, Odeon, Cineplex or any exhibitor. Intense competition resulted with exorbitant offers made for the most promising films. In 1984, Cineplex acquired Canadian Odeon which had been weakened by the new bidding system. Other smaller theatres could not bear the market prices and either went out of business or joined with one of the two exhibition chains, horizontal integration. By 1987, each of the Major distributors was again supplying one of the two major theatre chains and bidding was a dead issue (Knelman,1987a:94).

The industry contends that bidding tends to provide an appearance of competition and hides the reality of continuing exclusivity agreements between large distributors and theatre chains (Lewis,1986:234). Its goal of increasing competition by eliminating exclusivity arrangements has failed, given the current arrangements between Famous Players and Warner Brother's, MGM-UA, and Walt Disney and between Cineplex Odeon and Twentieth-Century Fox, Columbia Pictures and Universal Studios (Daly,1989:41).

While Canadian distributors may be excluded from theatres in urban centres by the Majors' conduct, it is very costly to reach independents in less urbanized areas because they are so widely dispersed. As a result, Canadian distributors are moving away from theatrical release in the small centres in favour of video rentals and sales (Tadros,1988:15). The problem becomes a vicious circle particularly for the rural theatre owner, who encounters not only structural impediments but technological competition. The bidding system is still in place, but it is generally agreed that "bidding is in name only" (Lewis,1986:193).

Obviously, little has changed since Virginia Kelly (1982:24) described the situation:

> In Canada, the independents have to bargain with either the Famous Players or Canadian-Odeon circuits. Canadian independent distributors can't always get playoff from the larger of the chains, Famous Players. A regular and constant flow of films from Paramount, United Artists and Warner Brothers will always end up on a Famous screen and Odeon can count on the faithfulness of Columbia Pictures and Universal to fill its screens. Twentieth-Century Fox splits between the two circuits. The fidelity of the Majors to the theatre circuits in Canada is unquestioned, and anyone who has tried to upset the apple cart has been scarred.

ii. Implications for the Marketing Mix

A crucial component to the marketing mix "Place" is compromised and ultimately affects the success of the other elements. Because of the Majors' control over the Canadian market, the distributors' ability to access "Product" is compromised. Lewis (1986:77) states: "Canadian distributors are now losing an important market share of the very products upon which they had always depended: Canadian, foreign, and independent U.S. features." Canadian producers are discouraged from using Canadian distributors since the distributors have no ability to gain entry into the American market. On the contrary, "to acquire access to the American market, the Canadian producer is often obliged to sell full North American theatrical rights" (Lewis,1986:177), which are awarded to the Majors because of their enormous bargaining power.

Daniel Weinzweig (1989:personal interview) described the frustrations of competing against the distribution forces of Cineplex Odeon Films, the distribution arm of Cineplex Odeon. "Independents continually run up against the large tentacles and deep pockets of Cineplex Odeon who are primarily exhibitors and can afford to pay inflated prices for films because they don't have to make money in distribution. The important thing is to make money in theatres."

Foreign controlled distributors have tied up both Place and Product, rendering Promotion and Price irrelevant. "In bargaining with independent and foreign producers, the Americans will not distinguish between Canadian and domestic U.S. markets. With their enormous leverage, they are thus expanding to fill the spaces and niches currently occupied by the Canadian independents" (Lewis,1986:183).

Control over Place decisions does not end in the Canadian market for the Major distributors. In fact, their reach extends world-wide and contributes significantly to total revenues. In effect, by examining how the Majors operate in overseas markets and understanding the unique treatment by which they are handled, the point is underlined that the Canadian market is really a part of the U.S.

The Major distributor has two options when exporting a film commodity: a. Major studio distribution b. Territorial Licensing (Hyde,1986:18).

a. Major Studio Distribution

Throughout the world, each Major has branch offices to co-ordinate motion pictures, television, and video distribution. Once an agreement with a producer is finalized, the Major signs an agreement with its numerous branches throughout the world who in effect become sub-distributors. The branches will also share a percentage of the exhibition revenue. The territorial office then pays the distribution expenses for that region, deducts these costs from net revenues and sends the surplus back to the U.S. office (Cinema Canada,1988f:21). Losses incurred in one region can be offset by revenues in a profitable region - cross-subsidization. In this situation, the world is treated as a single market; all revenues and costs from each exhibition window are pooled. The Major receives between 30 to 50 percent of the total (Hyde,1986:18). The producer will receive his share only after world-wide distribution costs have been offset by an advance or guarantee he may already have received. Any successful picture is penalized and the production company does not receive a return reflective of its performance.

b. Territorial Licensing

Alternatively, a negotiated license with a producer may result in distribution rights for a more limited foreign territory. This option opens the way for the producer to negotiate territorial licenses whereby local distributors in each territory have the distribution rights for that region alone and in some cases only for specified media in that region. While the producer's initial advance may be significantly less in this case, cross-subsidization is limited to that particular territory alone so that potential long-term rewards are greater than assignment of world rights to a Major distributor. Since revenue is not cross-subsidized, but instead territorial income is returned to the producer in full minus the minimum guarantee, costs and a small fee, the producer is assured of at least a minimum income.

In addition, the local distributor has the marketing expertise in his territory and the advance is his personal financial commitment to the picture (Hyde,1986:18). This method is an attempt by major film-makers to earn more revenue from world distribution.

> These distributors tend to have a more intimate knowledge of the local market for a variety of reasons: they are staffed by nationals of the country, whose entire career has been spent in distribution and exhibition in that market. Often, the managers of the majors' exchanges are nationals of another country, lacking both the same

> intimate knowledge of the market and key relationships with the circuit owners, built up over time.
>
> Since they are likely to be transferred to another country, they do not have the opportunity or even the incentive to acquire the same leverage in dealing with the theatre-owners in obtaining the best dates, houses, terms and co-operation. (Hyde,1986:18)

iii. Importance of the Foreign Market

The importance of this intimate knowledge should not be underestimated for it can make the difference between being successful or unsuccessful in developing and managing a marketing programme. The distributor is in fact offering the producer a product in the form of a service. These services will be designed under the contract terms in which the ability of the distributor to deliver revenue to the producer determines the quality of the services (product).

Understanding the consumer and his needs is elementary to the promotional campaign design and one cannot simply transplant the original campaign design into foreign territory and expect the same results. Success in international marketing requires even more attention to segmenting. There are over 140 nations with their own unique differences. There can be huge differences in language, customs, beliefs, religions, race, and even income distribution patterns from one country to another (McCarthy et al,1986:763).

Foreign markets make significant contributions to revenue. In 1985, world feature film rentals accounted for $1.73 billion (A.D. Murphy,1986:52) and this value was actually at an 8-year low due to currency fluctuations.

Is the Canadian distributor able to benefit from the foreign market? In 1985-86, Canadian distributors reported earnings of $161.9 million from the sale and rental of film and videotape productions; $95.4 million was paid out in royalties, rentals and commissions to producers of which only $13.3 million went to Canadians. This demonstrates that Canadian distributors receive substantially more revenue from foreign films than Canadian film, which is a product of the number of Canadian films distributed. Foreign distributors earned $232.5 million in revenues of which $114.7 was paid out in royalties and only $29,000 went to Canadian producers (Statistics Canada, 1989a). Foreign productions received about $210 million from the Canadian market whereas Canadian productions recieved just over $13 million. Production companies reported earnings in Canada from the sale and rental of productions of $202.6 million. Therefore there is a strong emphasis on television and advertising production for the producers' revenues.

If the distribution bottleneck was broken, success is possible and evident from recent Canadian examples. One of the surprise hits during the 1987 film year was "I've Heard the Mermaids Singing". Produced for $350,000 primarily from public funding agencies, the film grossed just over $83,000 in its initial two weeks in two Canadian cities and just under $100,000 in its opening 3-week run in New York (Cinema Canada,1987a:56). The film was distributed by Cinephile Films in Canada, by Miramax Films in the U.S. and by Films Transit internationally. Relatively soon after its North American release nearly every major country in the world had bought the rights, bringing in advances of $1.3 million.

Denys Arcand's "Le Declin de l'empire americain" was the runaway favourite of the 1986 Festival of Festivals and earned high critical acclaim at the Cannes Festival earlier that year. Film co-producer Rene Malo successfully distributed the film throughout Canada, and particularly in Quebec where it broke box-office records and became the highest grossing Quebecois film ever to play audiences in English Canada. The film entered the U.S. market as a result of Cineplex Odeon opening a U.S. distribution arm. Because of its extensive theatrical play in American theatres, qualified for an Academy Award nomination for Best Foreign Language Film (Kelly,1987:14). "The spillover effects from this one film's success has had an enormous impact on the structure of Malo's business and, by ricochet, on the distribution picture in Canada" (Kelly,1987:13).

Kelly (1987:13) described the success of Sandy Wilson's "My American Cousin," distributed by Spectrafilm and released in 1985. The company not only retained the film's Canadian rights, but the world rights as well and in the process became familiar with foreign buyers and sellers; a job previously handled by the Americans. Along the way, Spectrafilm sold the North American video rights to Media Home Entertainment for a record-breaking $600,000.

> The examples of "Joshua Then and Now", "My American Cousin" and "Le Declin de l'empire americain" show how successful productions in Canada have become tied to distribution and how the Canadian distributors,

> independent of aid or measures from the government, have managed to find ways of flourishing in a domestic marketplace which is still controlled by foreign interests. (Kelly,1987:14)

Lewis (1986:201) reports that an important difference between the Majors and Canadian distributors is the extent of their involvement in the overseas market. It is particularly important for Canadian films to be exported for the best a Canadian feature can expect to receive domestically is a 10 to 15 percent recoupment of costs. Canadian distributors are left incapable of gaining a foothold in this foreign activity. As domestic distributors they do not have control over their own market to act as subdistributors for foreign product. Similarly, as exporters, they do not have the structural foundation, nor access to the American market to be able to act as world sales agents.

This fundamental inaccessibility of product transcends Canadian distribution and affects production as well.

> If I had access to distribute the biggies, my profitability would increase multifold and I would be able to invest greater sums of money in Canadian production. With increased production, you can continue the cycle between production and distribution. (Weinzweig,1989:personal interview)

Since independent distributors are not integrated, their product in the form of a service which is offered to producers is disadvantaged. The Majors can offer a much wider range of services that would appear very attractive to any small film-maker. Services ranging from: print-making, advertising costs in all media, promotional campaigns, guaranteed play-dates and merchandising tie-ins to assistance with editing, dubbing or other production services cannot be matched by non-integrated independent distributors.

The combination of each of these activities leads to a monopoly of Place by and directs Product to the Major distributors. The need to acquire lucrative film is evident by the small remuneration available in the Canadian market. Since Canada is only four percent of the world market, ability to penetrate foreign film markets - Place - is paramount. In addition, as the only pictures - Product - available to Canadian distributors to sell globally are Canadian films, they have a vested interest in the health of the domestic production industry (Weinzweig,1989:personal interview). But as demonstrated, since both Place and Product elements are virtually out-of-reach, Canadian distributors have little market access and nothing to market.

3-II. PRICING BEHAVIOUR

In a profit oriented industry, such as film, the assumption is reasonable that the industry players will be driven to generate a maximum reward. That is, given access to a market, the seller will be inclined to charge the highest price for his product which the market will bear. Where the buying-public is constituted within a single market, such as the theatrical that existed in pre-television days, a single price is established in theatres in order to attract the largest audience that pays the greatest admission price to maximize profit for all involved.

In economic terms, this raises the issue of elasticity of demand, where depending on the product, a unit increase in price may or may not have a substantial effect on quantity demanded. Certainly with any product, there is a threshold of price increases when the quantity demanded will subside. With regard to film, price increases in the last three decades and the resulting drop in theatre attendance, combined with fairly constant box-office sales would indicate a fairly inelastic demand curve for film. With the advent of television and today's home-video, pay-television and cable, the existence of multiple markets allows for price discrimination. According to this theory explained by Owen (1974:15), no uniform price is efficient, because it excludes those consumers who value the product less than market price. In this way, a single theatrical market is inefficient as it established a single price for public consumption.

With an opportunity to exploit different markets, the seller can charge different prices according to what the consumers in each market will pay. With a commodity such as film, once the market is tapped and the supplier attracts a single consumer, he incurs little further costs to attract more consumers. His goal then is to attract as many consumers in all possible markets who place a positive value on his product (Owen,1974:15).

Price discrimination then separates consumers into different markets and charges them different prices for identical goods. This is achieved by separating customers into different markets in terms of "run," "zone" and "clearance". Run describes when the film opens in, for instance, a first-run house or second-run house. Zone describes the particular market where the film is made available and clearance prescribes the period of time in which it will be exhibited in this market (Gomery,1984a:68). Specifically, a price is placed upon a film in each market according to when it becomes available to the public in that market and for how long after its release.

Weinzweig's schedule of market release places the theatrical market first and network and syndicated television last with home-video and pay-television sequentially in the middle. Today, regular adult admission price in each of the two major theatre chains in Canada is $7 (<u>Variety</u>,1989a:33). Subsequent-run theatres will charge the public between $3 -$5 in this market. In the home-video market, video-cassettes may either be rented or purchased outright. Rental rates which allow viewing for a limited time period vary between less than $1 for weekday rentals to approximately \$2 - \$5 on weekends. Consumers do not pay directly for viewing the film on pay-TV, but instead pay a monthly subscriber's fee to have access to several films. The current price to access First Choice, the Canadian movie channel, is \$10 in addition to a monthly cable fee of \$10. Once the film is released on network or syndicated television, there is no direct charge to the public.

This demonstrates that the consumer places a decreasing value on the film the longer it is publicly available, according to Conant's notion of perishability. It also underlines the industry practice of price discrimination in order to reap profits from various markets. Those unwilling to part with \$7 to view the film upon its immediate release in the theatrical market, may be willing to rent the film for \$2 when it is available on home-video. Establishing a single market price of \$7 for the product could have excluded this customer and decreased industry profits.

With the existence of various markets for exploitation, it is pertinent to examine which one yields the greatest benefit to the distributor to determine where growth potential and opportunities exist. Data obtained over the decade will be used to assess how the Canadian public has changed in its preference for viewing films and the implications for the Canadian distributor. First of all, a presentation of total distribution revenues will be presented followed by a break-down according to Canadian and foreign-based distributors.

Table 3-1: PERCENTAGE OF DISTRIBUTOR REVENUE BY VARIOUS MARKETS

Market	1981	1983*	1986*	Change 81-86
Theatrical	51	47	33	-18%
Free Television	41	34	36	-5%
Pay-TV and Home-video	8	13	25	+17%

* 1983 and 1986 do not include revenues acquired in non-theatrical market.
Sources: Lewis (1986:32).
Statistics Canada (1989a,1985).

Table 3-2: PERCENTAGE OF DISTRIBUTOR REVENUE BY MARKET AND FINANCIAL CONTROL OF THE DISTRIBUTOR

Market	1983		1986		Change	
	Cdn.	Foreign	Cdn.	Foreign	Cdn.	For.
Theatrical	19	60	11	48	-8	-12
Free TV	43	30	38	34	-5	+ 4
Pay TV and Home-video	22	8				
Non-theatrical	16	2				

* Pay-TV and non-theatrical markets are not divided according to financial control of the distributor.

Source: Statistics Canada (1989a,1989b)

Table 3-1 demonstrates that the ancillary markets have increased their importance in generating revenue. That is, more people are preferring to delay viewing a film until it reaches the pay-TV or home-video markets where they pay less to see it. While the distributors' share in box-office revenue dropped 18 percent from 1981 to 1986, these losses were almost completely regained in the ancillary markets which increased 17 per cent in the same time period. As the latter markets represent a lower price paid by each customer overall, it is reasonable to conclude that more people are seeing the film by being able to take advantage of these new methods of exhibition.

In 1989, the home video market was worth $1.162 billion, up from $980 million in 1988 (Variety,1989b:46). By contrast, the Canadian theatrical box-office produced $360 million in ticket sales in 1989. Releases by U.S. Majors accounted for 92-93 percent of English-track and 70 percent of French-track revenue. Variety (1988:36) reported that in 1987, Canadian box office totals were $360 million and wholesale home-video sales from U.S. sources were $160 million. Ancillary markets are obviously very important for overall profit.

Yet this is not to diminish the importance of the theatrical market. While it now contributes only one-third to the revenue of distributors, its importance to the overall success of the film is unmistakable. This market determines the future success of a film in that a box-office hit will command greater sales and rental in home-video, and greater licensing fees in pay-TV and free-TV markets. It also contributes the greatest in per capita revenue since the distributor shares in every ticket sold. In other markets, his profit, while assured in advance, is fixed and does not increase with more viewers.

Table 3-2 demonstrates how Canadian and American distributors have been able to take advantage of these new technologies. A marginal increase for Canadian distributors in both the theatrical and free-TV markets was met with a decrease in market share of pay-TV and home-video. The same trend that was observed in the previous chapter, whereby the Majors sought and obtained the rights to independently-produced films, seems to have repeated itself as the Majors are taking advantage of ancillary markets. As observed by Lewis (1986:187), "Dominated by the Majors in the theatrical market, and under increasing competition for product, Canadian distributors expanded into the newly opening videocassette and pay-TV markets, (but) these increasingly lucrative markets have now attracted as well the attention of the Majors." He supports the view of an independent study by Stratavision Inc. that

> the Majors use their ability to make leveraged acquisitions to extend their dominant position in the theatrical market into the home video market, focusing in particular on the ever-increasing supply of independent productions. The Majors have been gobbling up independent U.S. and foreign properties, bargaining for the acquisition of ancillary rights along with theatrical rights, expanding their direct videocassette distribution activities in Canada.
> (as quoted in Lewis,1986:188)

Many industry analysts are predicting an end to what has been a four-year upward cycle at the box-office (Daly,1989:41). If this is true, then the focus towards ancillary markets will only increase, particularly with VCR penetration achieving 55 per cent of American households in 1988 (Denby,1988:41). By the end of 1989, 70 percent of U.S. homes were equipped with a VCR. (Variety, 1990a:33). Recent reductions in the prices of VCRs will continue to make the technology available to more consumers until a saturation level has been achieved, predicted to occur in 1995 when

85 per cent of North American households will be equipped. As a result, $16 billion of the projected $23 billion in revenues to film producers will be derived from the home video market (Weinzweig,1987:181). This figure will probably be easily reached. In 1989, the U.S. video retail was valued at $11.5 billion, twice the size of the North American box-office, which reached $5.02 billion. The video market was divided into $2.5 billion from the "sell-through" market (direct purchases of the pre-recorded cassette) and $9 billion from video rentals (Variety 1990c:31).

A recent trend may also be signalling this development and is another example of price discrimination. At the dawn of home video a few years ago, exorbitant purchase prices for pre-recorded cassettes led to the prediction that their use for the average person would be through rentals. Movies are priced with the idea that they will be purchased,"sell-through", while others remain unaffordable. The rationale is based upon which movies are determined to be keepsakes and which would be viewed only once. Thus "Raiders of the Lost Ark" was priced at $29.95 to encourage more sales directly to consumers, while "Dirty Dancing" was priced at $89.95 with the probability that there will be only one sale for the distributor to the video store (Zoglin,1988:83). The distributor has a strong incentive to encourage more sell-through as this represents his only share in revenue of pre-recorded videocassettes. The revenue on public rentals does not directly benefit him as he enjoys no share from rentals.

Price discrimination and exploitation of new markets is very lucrative for the profit-hungry distributor. Canadian success stories are beginning to be seen in "I've Heard the Mermaids Singing" and "The Decline of the American Empire" released theatrically, on home-video and pay-TV, as well as in foreign markets. While, these ancillary markets are generally saturated with Hollywood product, hiding the visibility of independent product, this still represents the greatest opportunity for revenue as the data indicates.

3-III. RESEARCH AND INNOVATION

Film as a product provides an entertainment experience; it is the promise of this experience which distributors and exhibitors try to sell. The experience is a story presented comically, dramatically, musically or using any combination of these modes that is developed to involve the audience's senses and imagination. Where the experience on the screen is the basic element being sold, enhancement of the experience will encourage viewership. These additions enhance the product and make it more attractive for use, particularly when competition for the public's leisure time has become so acute. Participatory and spectator sports, theatre, music, dining, television and numerous magazines compete for an audience. No longer is it assumed that audiences will flock to the newest film release, particularly as evidenced by the declining family expenditures on movies previously noted.

To this end, attempts to improve the film-going experience have developed to meet the competition and have primarily occurred in exhibition technology and construction.

3-III-A. New Exhibition Technologies

Within all film markets, delivery of film has been affected by technology. Both sight and sound senses have received a boost by offering cleaner, clearer, crisper film. Initially, the concentration was toward the visual quality of the film.

The first feature-length 3-D film was released in 1952 and only periodically has the technique re-emerged, since it has not gained a mainstream audience nor critical support.

> If 3-D lasts, it will survive as a medium of its own, not as an add-on to a typical motion picture. It may be possible to include a story of some sort into a 3-D presentation, but it should not detract from the 3-D. One can enjoy a good 3-D presentation, or a good movie, but it is unlikely one can produce both at the same time. (Vlahos,1974:492)

Other developments at the dawn of television in the early 1950s were Cinerama and Cinescope which attempted to focus on the size of the big screen. Cinemascope was a wide-screen projection method utilizing synchronized projectors and multiple magnetic soundtracks. However, the projection system required such theatre reconstruction as to make its implementation too complex (Kloepfel,1976:538).

Subsequently, the first 70 mm film was "Oklahoma!," released in 1955. Its exhibition was made possible by the Philips company which developed a 35/70mm combination projector. The introduction of improved quality was thus simplified and eased into use by its compatibility with existing systems. By May 1969, approximately 1,100 theatres were equipped with the combination projector (Kloepfel,1976:541).

Not until hi-fidelity stereo sound had become widely introduced into the consumer market did the feature film industry examine theatre sound. The first innovation, Dolby, was introduced in music recording in 1966 (Allen,1975:720). The attraction of the technique was not only the resulting reduction of background "noise" or "hiss" without loss of quality, but its application required little modification of existing equipment, and maintained compatibility with an unconverted system (Allen,1975:720).

THX, the newest sound development, occurred as a result of the disappointment that the production and direction crew of "The Return of the Jedi" experienced over the exhibition of their film. The creator of THX, Tomlinson Holmes, did not concentrate only on cinema stereo equipment, but on the complete theatrical environment including speaker quality and placement, and material in the theatre walls. The result is an expansion of existing Dolby range of two octaves for an additional cost of only three percent in new theatre construction (Duncan,1986:B10). Theatres acquiring the THX system do not just purchase equipment, but instead must maintain standards and face inspections of the system itself. Holmes indicated that the goal is not to make money, but "the idea is to improve the theatre-going experience so that cinemas won't be crushed under the weight of competition from video cassettes in much the same way the advent of television forced cinemas to develop Cinemascope and stereo sound" (Duncan,1986:B10).

Continued development in theatrical film delivery has occurred in the form of IMAX, but its potential in commercial theatre remains in doubt. The cost of such magnificent exhibition is not limited only to the $2.5 - 4 million production of a 40-minute IMAX film, but the theatres themselves cost between $2.5 - 14 million to construct while the special projection system adds $1.5 - 2 million (Lerch,1986:20). In comparison, it costs about $630,000 per screen to construct new multiplex cinemas.

Costs aside, the impression of IMAX on the audience is participatory and involving. However Hollywood financing has not been forthcoming as executives allege that theatre construction would not occur quickly enough to allow the system to distribute feature film. From a commercial view, this argument has merit for while Ontario Place in Toronto has delivered the system for 18 years, in 1986, only 45 IMAX theatres existed in 13 countries with 25 more to open by the end of the 1980s (Lerch,1986:20).

While these technologies have developed primarily to augment the theatrical experience of film, other developments have created whole new film products and as a result, new film markets.

Television was the earliest development, reaching its heyday in the 1950s and 1960s. The success of television was immediately evident at the box office as attendance figures plummeted. Programming old films became a new market for the studios, but essentially the medium became dominated by new, shorter programmes. As the television medium developed, the studios had little involvement as it attracted completely new producers and distributors. Today, it is no longer considered a new technology as almost all homes have a colour television set and the proportion with two or more colour TVs - 36 percent - has grown almost five-fold in the last decade. (Windsor Star,1989:1).

Today's most significant development has been the videocassette recorder. This technology has not yet achieved a saturation level in Canadian homes, but has certainly grown rapidly reaching 58.8 percent in 1989, (Windsor Star,1989:1) up from just 13 percent in the fall of 1983 (Statistics Canada,1989b). In fact, the VCR has enjoyed the fastest household penetration of any home electronic appliance including television (Tusher,1986:44).

Given the impact which television had on the theatrical market in the 1950s, it is little wonder that the film industry regarded VCRs with fear and trepidation, in the belief that it would destroy their industry. In fact, the technology has developed to benefit the industry. In the U.S., revenues from videocassette rentals account for 39 percent of industry revenue while the box office contributes 42 percent (Denby,1988:31). More recent figures suggest video's impact is much greater. As indicated before, the video retail market was worth twice that of the box-office ($11.5 billion to $5.02 billion). Thus any prediction of a pending box-office decline will be accounted for, from an industry perspective, in the video market.

Therefore, it is true that the VCR's impact is enormous. Many times more films are being seen on rented videocassettes than in theatres in every age group and the gap is widening (Tusher,1986:3). Denby (1988) reported that as of June 1988 about 35,000 titles were available in the U.S. and more than 500 new titles were issued monthly.

Further, its effect has been positive. According to Bob Miller of General Cinema, "VCRs have expanded movies for some people who gave them up and are now rediscovering them again... People will go to theatres to see the actors they enjoy on videos". (Indianapolis Star,1989:E9). Therefore, the two markets, instead of operating antagonistically, are really co-operating. The losses incurred in the theatrical market are offset, at least partially, in the video market where a film title is generally released six months after its theatrical release.

But it is also true that the success of a film at the box office will determine the success of a film in video rental and sales. Strong critical acclaim and most importantly box-office returns are needed to support the video market in order to encourage its rental.

For the distributor in Canada, video rentals represent the largest share of the consumer market (Weinzweig,1987:180). An easy to reach target of 1000 videocassette sales in Canada will generate approximately 10 to 15 thousand dollars in revenues to the producer. The downside for both the distributor and producer is that they only share in the initial purchase price and not subsequent rentals. But as the market price for cassettes is lowered making them more attractive to purchase, an increase in revenue should be returned to the distributor and producer.

3-III-B. Multiplexing

In 1979, Cineplex opened its first multi-screened theatre housing 18 separate theatres, each with a seating capacity ranging between 60 to 150 people. The cost-reducing advantages to the exhibitor were realized in the form of a single box office and a single concession stand, in addition to a centralized projection booth from which several films could be screened at once using only a few projectionists (Lampal and Shamsie,1989:18). For the consumer, less-commercial films were available, which could not attract an audience to fill large theatres, introducing a whole new product into the market. Foreign films, art films or specialty films appealed to new market segments and required a new mix. Major-release films, once they were no longer profitable in large theatres could be screened in smaller cinemas. Drabinsky described his plans, "We are seeking to develop a market that to some extent doesn't exist. We are taking specialized markets and filling their needs. It is a latent market and a different niche than the majors go after" (Lampal and Shamsie,1989:17). The success of the concept is evident in the growth of Cineplex Odeon where today the company is one of the largest exhibitors of motion pictures in North America with 1,820 screens in approximately 500 locations (Drabinsky,1988:1).

Along the way, Drabinsky, aware of Pay-TV and VCR competition, transformed the film-going experience. After acquiring a theatre, extensive renovations turned what in the U.S. were dilapidated, dirty, crime-ridden establishments, into lush and luxurious palaces. "We are determined to give back to our patrons the rush and excitement and anticipation and curiosity that should be theirs when they leave the techno-regimented world of their daily lives for the fantasy world of escape that is the movies" (Lampal and Shamsie,1989:19). While theatres were still relatively clean and respectable in Canada, innovations in exhibition really had not occurred for a long time. "I think Cineplex was the perfect tonic for the industry when it came along. Cineplex made going to the movies fun again" (Hubbard,1989:16).

In this endeavour, Cineplex Odeon's success can be seen in the renovations which occurred industry-wide. In Canada, Famous Players is no exception, but it has not gone to quite the same lengths as Cineplex. The exhibitor surveyed Canadian moviegoers and discovered their prime concerns were bigger screens and better sound quality (Daly,1989:41). In fact the audience responded that decor was unimportant. The company, aware that these frills increase admissions only five percent still renovated its old theatres and emphasized design in new ones to avoid the risk of losing business to Cineplex Odeon.

3-IV. ADVERTISING

Advertising is a specialty of the distributor, one of the reasons for which his services are contracted and represent a major portion of his expenses. In theatrical exhibition, advertising expenses will be shared between the distributor and exhibitor according to the percentage split of film rental revenues on the motion picture. Should the arrangements be a 70/30 split, the distributor will pay 70 percent of the advertising costs. Weinzweig (1987:183) states that while "advertising costs vary with pictures, approximately 10 to 15 percent of the theatre's box office grosses are expended in advertising dollars."

American Majors normally divide advertising expenses similarly with exhibitors but expend only 6 to 8 percent of the box office gross on advertising (Jowett and Linton,1989:53). While this figure will represent a significantly larger amount in absolute terms for the Major, in relative terms, advertising is more expensive for the Canadian distributor. Peter Simpson of Simcom/Norstar assessed the situation: " About $500 million was spent on films in 1987 and $5 million of that was on distribution. That's the problem" (Tadros,1988:16)[2]. Compare the per picture average of $5.5 million for the 1987 Majors' Christmas releases. (Grover,1987:39). The following figures for late fall and Christmas 1987 releases show the financial clout and competition necessary at this very crucial time of year.

[2] Simpson is referring to Canadian government expenditure via the Distribution fund, not total industry expenditure.

Table 3-3: ADVERTISING COSTS FOR SELECTED 1987 HOLLYWOOD RELEASES

Studio	Film	Production	Promotion
		$000,000	
Columbia	Leonard, Part 6	21	7
	The Last Emperor	20	6
Disney	Three Men and a Baby	17	6
MGM/UA	Overboard	20	5
Orion	Throw Mama From the Train	13	8
Paramount	Planes, Trains & Automobiles	18	8
	Eddie Murphy Raw	11	6
20th Cent./ Fox	Wall Street	17	7
	Broadcast News	16	6
Universal	Batteries Not Included	22	6
Warner's	Empire of the Sun	30	6

Source: Grover (1987:39).

Current figures are even more startling. Average negative costs for MPAA member companies is $23.5 million and average cost for prints and ads is $9.4 million. This vast expenditure is still no guarantee that profit will be realized. In 1989, only 30 of the 164 features (18 percent) produced and marketed by MPAA member companies realized $20 million in rentals, and this set a record (Variety,1990b:7).

Breakthroughs in new forms of exhibition, home-video, pay-TV and network television allow distributors to get more mileage for their advertising expenditure. Initial advertising for the theatrical market is extended through the periods of subsequent release in order to sustain the hype and promotion throughout all exhibition markets in order to completely exploit the film. Future releases are no longer considered competitive, but instead, form part of a general release strategy (Tadros,1988:15).

Initial advertising begins weeks and sometimes months in advance. Christmas theatre audiences in 1987 were treated to trailers for two summer 1988 releases, MGM's "Willow" and Tri-Star's "Red Heat." "Willow" was also promoted on MTV two seasons in advance. The promotion began with the Christmas mailing of a glossy four-colour, 24-page "Willow" photo booklet to press and exhibitors and continued with elaborate pre-release product tie-in campaigns (Gold,1988:3). "Advance cross-seasonal trailering is not a new wrinkle but can be terrific marketing on the very important condition that the title, concept and stars mean something to the captive audience" (Gold,1988:3).

Creativity in the ad promotion is critical, and now the benefits of corporate sponsorship or tie-ins can assist. "Godzilla 1985" was produced by New World for $700,000 and achieved ten times that amount at the box office alone. To promote the film, the movie monster was sent on the national and local talk show circuits. The tie-in came with a Dr. Pepper ad campaign, "Dr. Pepper is a monster of a drink," providing a new forum for the furry star to get widespread print and television publicity (McAlvey,1986:59).

The non-North American market necessitates special advertising for the Hollywood majors. Stars cannot just be duplicated with expectations that the same results will be realized. For example, the choice of Sean Connery to play Indiana Jones' father in "The

Last Crusade" was based on the dictates of the export market. The largest image on the poster in foreign territories was of Connery with smaller images of Harrison Ford and Alison Doody (New York Times,1988). Different stars are more or less famous throughout the world requiring substitution or ad reconstruction to fit the market.

"The Last Temptation of Christ" illustrates well what unpaid publicity can do for a film. It was released earlier than scheduled because it had aroused fiercely negative public opinion and protests. The film was one of 1988's best sellers as patrons clamoured to the box office to see for themselves if the objections were justified.

3-V. LEGAL TACTICS

The Majors have aligned themselves into an advantageous position in the market. Secure structural arrangements are reinforced by individual firm operations, frustrating the independent Canadian distributor from securing a foothold. Legal manoeuvres brought forward against the Majors have accomplished little in correcting the situation either, as the Cineplex case demonstrates. In fact, the results of what may have been an honest attempt to eliminate the integration served only to reinforce the bonds and allow a new Major to emerge.

In 1983, Cineplex applied to the Restrictive Trade Practices Commission under the Combines Investigation Act against seven distributors operating in Canada: Astral Films, Columbia Pictures, Paramount Pictures, Universal Films, Warner Bros. Distributing, United Artists Corp. and Twentieth Century-Fox Film Corp. The application contended that exclusivity agreements existed between Famous Players Ltd. and Canadian Odeón Theatres to restrict access to the distributors' product to themselves. Cineplex also demonstrated that its theatre operations in the U.S., where restrictive trade practices are prohibited, were able to acquire first-run films without difficulty (Cinema Canada,1983c:3).

Rather than have the case go before the commission, the distributors subsequently entered into settlement negotiations. The new system, would allow all eligible exhibitors in the geographic area of a run to submit bids on a film-by-film, theatre-by-theatre basis. This new practice was intended "to ensure that significant competition exists in the distribution and exhibition of motion pictures in Canada." (Cinema Canada,1983b:3)

Cineplex was happy, the RTPC was happy, the Majors were happy. Chris Salmon, then Canadian Odeon president was not happy. He predicted more power in the hands of distributors, higher admission prices and overall loss of profits for exhibitors (Cinema Canada,1983b:37).

For the most part, Salmon's fears proved to be accurate soon after the system became operational. The rules of the game were unclear to exhibitors allowing distributors many loopholes to exist and excuses to continue favouritism. In addition, bidding led to the development of blind-bidding, whereby exhibitors were forced to financially commit themselves to a film well before completion, often before production had begun. Blind bidding is illegal in over 20 states in the U.S., but in Canada, the bidding situation was introduced by the Combines Investigation Branch and "there is no legal recourse to appeal that action" (Cinema Canada,1984e:103). Smaller theatre circuits and independent theatres were affected the most, as the system increased the costs of a film and demanded increased risks.

A report released in March 1984 for the RTPC, nine months after the bidding system took effect, concluded: "There has been little change in the distribution pattern of first-run motion pictures. Between 72 percent and 100 percent of the first runs of the distributors were awarded to the exhibitors who would have a right of first refusal under the alleged alignment in the opportunities for exhibitors to obtain subsequent or moveover runs more quickly" (Cinema Canada,1984b:27). This system had not stimulated competition between Famous Players and Odeon, nor had improved the ability of independent exhibitors to obtain first-run product.

Soon, the bidding system, combined with blind bidding, was targeted as being at least partially responsible for theatre closures nation-wide (Cinema Canada,1984a:29). Yet in the midst of primarily negative response to the new system, the RTPC considered the case closed since the original applicant, Cineplex, had acquired Odeon and was no longer frustrated with inaccessibility to product. The RPTC stated, "the industry in the past year has made remarkable change...People have learned to live in a competitive marketplace" (Cinema Canada,1984a:29).

3-VI. SUMMARY

To become a dominant player in the film industry implies a high degree of activity; this level of activity can only be carried out by dominant players. The Major distribution firms in Canada, acting either individually or collectively, force Canadian distributors into a secondary position within the Canadian market.

Initially, thorough exploitation of a film requires development of a comprehensive marketing mix with an ability to manipulate the marketing variables: Product, Place, Promotion and Price. That the Canadian distributor is prevented from making decisions in these crucial marketing basics underlines his weaknesses. First and most importantly, Canadian distributors' access to Product is limited to Canadian films since the Majors have eliminated their own products and foreign independent productions from availability. Canadian distributors can offer only the Canadian market in which to distribute the film, but the Majors can offer the entire North American market.

Secondly, access to Place, which for film refers to exhibition, has dwindled during the past decade. While the Majors retain access to the most lucrative theatre chains and play-dates, the independent theatres and chains have encountered difficult times under the bidding system and from home-video competition. Now many of these theatres question their own survival.

Promotion in the film industry demands a huge financial outlay, an amount that is all too often beyond the means of a Canadian distributor to compete with promotional expenditures by the Majors.

Finally, distributors have little control over Price decisions as exhibitors and home video outlets control retail prices. Wholesale prices and distributor-exhibitor contractual arrangements must ensure that the distributor's expenses are met and provide a profit for both the exhibitor and distributor. Yet, given the potential for a larger profit with a Major's product, there is little room to negotiate.

Because of the small size of the Canadian market, it is important to consider distribution of Canadian film in foreign markets. This activity requires an extensive outreach of connections and networks developed only after years of integration in foreign markets. One can easily suggest that this area has not achieved its potential yet. On the contrary, continued focus on responsive foreign activity is almost as crucial as gaining access to the domestic market.

The growth of home-video and ancillary markets signals a crucial opportunity for independent distributors. Combine new lucrative markets with the universally-predicted eventual demise in box-office income and the argument is strong for independents to penetrate this market successfully. The compatibility that has resulted between home-video and theatrical exhibition indicates that distributors will benefit. Successful theatrical films become successful in video rentals and sales. Again, the Majors have dominated these new technologies, but there have been some rewards for Canadian independents.

Preparation for new market development is possible only with intimate market knowledge, something Canadian independents do not possess. Anticipation of new trends in technology, demography, viewing preferences, etc. is possible only with market study. The expense of such studies is beyond the ability of Canadian distributors, but must occur if they are to capture control of new trends and retain it.

From a marketing perspective, Canadian distributors are forced into reactionary roles. Because they do not have the financial strength to take the necessary risks to find a unique position in the industry, much less retain it, any activity they conduct can at best only maintain their secondary roles. The rules must be rewritten to place Canadian distributors in a more advantageous position.

CHAPTER FOUR:

FILM POLICY IN CANADA AND OTHER SELECTED NATIONS

4-I. INTRODUCTION

The model of industrial organizational economics provides a clear indication of both the industry structure and the conduct of firms within the industry. Each of the previous chapters has reached the conclusions that the economics of the industry is structurally imbalanced, allowing foreign firms an advantage in marketing and distributing film products in Canada. As the Canadian distributor is left out of the traditional flow of financing from the sale of films, he cannot establish himself as a player in the industry. His subsequent actions only reinforce his position on the periphery. Lewis (1986:36) states that there are two alternatives for a Canadian film:

> Either a film needs the vast American market, national exposure in Canada, and a massive promotional campaign - in which case it is tailored to appeal to the Majors, and all theatrical distribution rights - foreign and domestic - will be sold to the Majors, who can assure such things; or, a film needs Broadcast Fund support, in which case it will be tailored to appeal to the tastes of broadcast television. With few exceptions, these are the two current recipes for success in the Canadian film industry.

Yet with or without the dominance of American firms in the Canadian market, Canadian distributors and producers would still be conducting business very precariously. A fragmented structure and a fragmented market are impossible conditions within which smaller Canadian firms can survive. Yet stable American firms with greater resources can enter and thrive by making the system work to their advantage.

In the Canadian film industry, there is a clear separation between the production and distribution sectors. Distribution networks are largely under foreign control, and Canadian producers tend to be detached from the distribution system, with which they have no permanent relationship, and usually handle their marketing on a product-by-product basis without an adequate knowledge of the technicalities of distribution. Large distributors, who are primarily interested in the products of their own foreign parents or affiliates, seldom participate in production in Canada.

This pattern differs from that in countries that are more advanced in film production, where the distributor often takes an active part as investor, adviser, and sometimes originator in the production sector. While it is not to be expected that relationships of this kind between Canadian producers and the large distribution systems under foreign control could be quickly developed, there are ways in which the film agencies of the federal Government could do much to improve the situation. Neither the NFB nor the CBC have done much to promote the output of the private sector, while the CFDC has avoided any involvement in distribution. Film is a universal product, and must be promoted and distributed through as many channels as possible.
(Bureau of Management Consulting,1976:191-192.)

4-I-a.CONTRIBUTIONS OF THE INDUSTRY TO THE CANADIAN ECONOMY

As the Canadian market is skewed against the ability of Canadian distributors to actively participate, initially the federal government and now several provincial governments have realized the necessity to intervene. McCarthy, Shapiro and Perrault (1986:17) outline the justification for government involvement in a free-market economy:

Since proper functioning of a market-directed system

> depends on continual, smooth flows throughout the system, the government is expected to make sure that the market system continues to work properly. In an effort to protect the rights of consumers and producers, the government usually sets rules for the system. The aim of the rules is to ensure that property is protected, contracts are enforced, individuals are not exploited, no group monopolizes the resource market or the product market, and that producers do, in fact, deliver the kinds and quality of goods they claim to be offering.

Certainly these requirements are present within the Canadian film industry, but equally important is the contribution of this industry to the Canadian economy and therefore the need to keep it healthy.

Government investment in the film industry can be justified for cultural reasons (to combat American domination of screens) or economic reasons. Knelman (1987c:64) reports that for every dollar of tax incentive, the government gets back perhaps three times that much from the industry, making film industry support a good investment for the government. Culturally, since Canada's people are separated by vast open spaces, any industry that can emotionally unite them should be encouraged.

Leaving aside the vital cultural contribution of the film industry, an examination of the economic impact of the arts and culture sector as a whole shows that it is very significant to Canada. In "The economic impact of the arts and culture sector", (Statistics Canada, 1986:10) the measurement of Gross Domestic Product (GDP) is used to define the value of production arising within the geographic boundaries of Canada. GDP can then be used to compare the contributions of different industries to the economy. In this study, Statistics Canada (1986:10) reported that in 1981 the direct contribution of the arts and culture sector to the GDP is "somewhat larger than the tobacco, the rubber and plastic, the textile, the clothing, and the furniture and fixture industries, and about the same as the metal and mines, the food and beverage, the electrical power, gas and other utilities, and the accommodation and food services industries."

The direct impact of the arts and culture sector was valued at $5.2 billion or 1.7 percent of the GDP of the whole economy in 1981 (Statistics Canada,1986:10), with the film industry contributing $302.2 million and employing 22,414 (Statistics Canada,1986:18).

But the total output of an industry is much more than the amount of direct expenditures of a given industry to the economy. In fact, total output should include the indirect interaction with other businesses and economic sectors which induce further economic activity. The report states that "production and purchase of goods and services by the arts and culture sector creates requirements for commodities which in turn require additional production by other industries" (Statistics Canada,1986:11). Beyond these direct contributions then, there is a further respending of wages in the arts and culture sector, in the supplying industries and in the subsequent generation of further production of goods and services producing an "induced" impact. The study found that the direct, indirect and induced contribution of the arts and culture sector to the GDP together was $12.7 billion or 4 percent of the whole economy and the total number of jobs created was 452,873 (Statistics Canada,1986:4).

Further the study demonstrates that to achieve this level of activity, the sector is not a drain on government fiscal reserves. In 1981, the arts and culture sector received $800 million in subsidies, yet contributed $1.376 billion in taxes and use of government goods and services. Overall, the government earned revenue of $776 million, no doubt to be used to assist in financing other public projects.

The ratio of film's contribution was immense, for while it received $16.3 million in government subsidies, it generated $138.5 million to the government account (Statistics Canada, 1986).

The study suggested that besides the intrinsic value of the cultural contribution to Canada, the arts and culture sector "is a major direct source for jobs, income and tax generation [with] many thousands of jobs and hundreds of millions of dollars in income generated in economic sectors that appear to have no immediate link to the arts and culture sector" (Statistics Canada,1986:8). Clearly one can argue that far from providing assistance to an industry which only contributes to the national cultural and spiritual fabric, there are clear tangible financial benefits for government involvement. That the subsidies given to the industry are more than returned, is evidence that not just film, but the arts and culture sector in general makes an important economic contribution.

By 1986-87, Canadian governments at the federal, provincial and municipal levels spent $4.565 billion on the arts and culture sector in Canada (Statistics Canada, 1988a). The federal contribution was $2.448 billion, all provinces combined spent $1.342 billion and municipal governments contributed $775 million.

Film and video received $165.3 million of the federal contribution in the form of operating and capital expenditures and grants and contributions. It is worthy to note that the National Film Board received just under one-half of the federal expenditure ($72 million) for operating and capital expenditures. The remaining $82.7 million in federal grants and contributions, was largely given to Telefilm (93 percent) to disperse.

At the provincial level, the main beneficiaries of cultural aid were heritage institutions, libraries, broadcasting and the performing arts. Film and video shared second-to-last place with visual arts, followed by literary arts. While no overall expenditure was specified by Statistics Canada, it was stated that the expenditure tripled from 1982 to 1987, largely as a result of the creation of the Ontario Film Development Corporation. This underlines the relatively small expenditure, which now totals $30 million, devoted to film and video by all provincial governments combined. Film and video competed with literary arts, visual arts and broadcasting for the available $139,000 in Canadian municipal arts and culture expenditures that were not allocated to libraries, heritage institutions and performing arts. Therefore from a total expenditure of over $4.5 billion on arts and culture in Canada, $200 million or about 4 percent was spent on film and video.

The financial rewards and number of jobs directly dependent on film is enormous. Canada's three main film centres, Toronto, Montreal and Vancouver shared a total of $400 million in film revenues in 1986 (Knelman, 1987b:106). Leading the way was the city of Toronto which in 1986 received $180 million in revenues from film production, of which approximately one-half was generated from American projects. The main attraction was lower costs. Further, a report produced by the City of Toronto's Planning and Development Department and reported by Martin Knelman in "A piece of the Action" (1987a:106) stated that the Toronto-area film and television industry now directly accounts for 25,000 jobs. These revenues are partially the result of production expenditures on local goods and services which also add stability to the local economy.

But this high proportion of American involvement in production in Canada cannot be relied upon. If lower costs are the main attraction, an increasing value for the Canadian dollar, along with increasing labor costs as expertise is refined, may force American producers to look elsewhere. Relying on these revenues could be perilous should an exodus occur.

Government intervention in the film industry is economically productive for both the public account and, the employment of Canadians and for businesses servicing the industry. Yet undoubtedly it is probable that if these funds had been put towards development of another Canadian resource, the returns could rival those of film. Justification for public expenditure must go beyond the parochial interests of a certain industry. Film provides a unique opportunity to meet cultural objectives as well as economic. Therefore, in a regionally-divided nation that questions its own future and identity, culturally relevant films that relate the fabric of Canada are a worthwhile venture for government involvement.

However, economic and cultural goals are not necessarily met by the same means. Fiscal tools which have pure economic purposes may be detrimental to cultural ends; cultural objectives may not be the most economically sound activities. Therefore, a clear statement of goals and industry composition must be stated and matched to the level and amount of intervention that is reasonable and achievable.

Michael Bergman (1986), in "Seven strategies for Canadianization", outlines different methods of restructuring film distribution in Canada in order to achieve varying levels of equitability for the Canadian distributor. The proposals range from a completely market-driven industry - the "do-nothing method" - to complete nationalization under a Crown corporation. Neither of these proposals would appear to be industry objectives and therefore composite strategies are proposed. According to Bergman (1986:10), the best distribution system will be a joint private-government effort because there are too many marketplace constraints that have developed from foreign dominance.

More importantly, there are choices for the type and extent of state involvement. In the first place, there is the need to address the question of the intentions behind any intervention. If a contribution to the national coffers were the only reason, surely support to other industries would make better economic sense, given the unpredictability of demand for film.

According to Bergman (1986:10), "government intervention is justified to the extent t..t it opens up competition between foreign distributors and Canadians". Beyond this rationale is the goal of developing not just the film industry, but creating a competitive entertainment form that audiences will seek out. Certainly the industry is not built upon the success of a few individual films, but instead upon "a distinct entertainment content can only be achieved when all components of the industry have an interest in pushing it" (Bergman,1986:10). This, according to Bergman, is the elementary problem of the industry, for American firms which dominate in Canada have their own entertainment industry to sell. Any interest in Canadian film is evident only insofar as it assists the continuation of their own system. The goal then must be to harmonize Canadian film interests to achieve a distinct entertainment form that can compete initially at home and subsequently abroad.

The tools available for government intervention are numerous. Almost every conceivable method has been attempted with varying degrees of success, not only in Canada and its provinces, but also in several countries throughout the world. Thomas Guback lists some of the more common methods in The International Film Industry: Western Europe and America Since 1945 that have been employed to protect an indigenous industry, such as: direct film import quotas; requirements for exhibitors to exhibit local works; different tax rates on admission receipts for foreign and domestic productions; subsidies financed through admission taxes; taxes on televisions and VCRs; government establishment of film rental terms; government monopsony.

Of course this list is inexhaustive and one need only examine the Canadian attempts to promote Canadian film to see the evidence. Instead of enumerating the long history of film policies, this chapter will focus on those policies that are currently in place in Canada to demonstrate their effect. Comparison of the effects of the various fiscal tools implemented will show that each will tend to promote culture or economic goals of the industry. To a much lesser degree, the history of the British and Australian film industries will also be examined to highlight the effects of solutions applied to industries with similar circumstances.

4-II. CURRENT CANADIAN POLICIES

4-II-A. Federal Government Policies

i. Telefilm Canada

Since the early days of public intervention in the feature film industry in Canada, many formulas have been tried in order to encourage its development. Focussing on different mechanisms to encourage financing, each was aimed at different sectors of the industry identified as worthy of support and considered likely to boost the entire industry. Today's policies and institutions are a result of this evolution, with support programs existing at all levels of government. Since municipal programmes are localized to major urban centres, this study will be restricted to federal and provincial activities that are now in place.

Policies implemented at the federal level for independent production are primarily those executed by Telefilm Canada. Initiated in 1983 as a restructuring of the Canadian Film Development Corporation, it assisted primarily in the production of television programming, with approximately $50 million at its disposal each year. Telefilm Canada's funds and programs have since grown and diversified. The Telefilm of today is as much an agency supportive of feature film as it is of broadcast programming demonstrated by the policies and funds now earmarked for feature film. From the 1989-90 Strategic Plan (1989d:18), Telefilm's current budgetary breakdown is:

Table 4-1: TELEFILM CANADA 1989-90 FILM BUDGET

Feature Film Fund	$30.7 million
Versioning Assistance Programme	$ 6.6 million
Feature Film Distribution Fund	$16.5 million
Canadian Production Marketing Assistance Fund (formerly the National Distribution Assistance Fund and International Marketing Assistance Fund)	$ 3.8 million
Interim Financing Fund	$ 8 million
Grants to Canadian Film and Video Festival	$ 1.6 million
Total	67.2 million

Source: Telefilm Canada (1989d:18)

A total of $67.2 million is available for various activities to individuals and organizations in the Canadian feature film industry annually. The Canadian Broadcast Program Development Fund provided $73.1 million for program production (Telefilm Canada, 1989d:29) for a grand total of $140.3 million to distribute over 1989-90 in the form of grants, advances, loans or investments in Canadian film and video production. The previous fiscal year, 1988-89, Telefilm earmarked $122 million for all programmes with funding for film specifically allocated as follows:

Table 4-2: TELEFILM CANADA 1988-89 FILM BUDGET

Feature Film Fund	$24 million
Versioning Assistance	$ 4 million
National Distribution Assistance Fund	$ 2 million
International Marketing Assistance	$ 1.2 million
Interim Financing Fund	$ 8 million
Grants to Canadian Film and Video Festivals	$ 1.6 million
Canadian Participation in international cinema events	$ 1 million
Total	$41.8 million

Source: Telefilm Canada (1989c)

With regard to the Feature Film Fund, Telefilm looks to participate in those projects "that meet the highest standards, both in terms of quality and Canadian content" (Telefilm Canada 1989d:11), where the level of Canadian content is determined by the Canadian Audio-Visual Certification Office point system. Further, films must be made by the private sector and destined for commercial theatrical release. Through these activities, it strives toward the financial improvement of the private sector to ensure its stability and development (Feature Film Fund, Policies: 2).

The Feature Film Distribution Fund is a new creation of Telefilm, established in October 1988. The $ 17-million fund, of which $16.5 million was targeted for dispersement, was created to assist Canadian film distributors in acquiring the rights to Canadian films by increasing their available risk capital. The fund also provides assistance in marketing and promotion of Canadian films. Certainly its most important objective is to "strengthen the Canadian distribution sector, thus favoring reinvestment of Canadian market revenues into new Canadian productions and ensuring a healthier domestic film industry" (Telefilm Canada,1988:3). The fund consists of two components: the Principal Fund at $15 million and the $2 million Contingency Fund.

The Versioning Assistance Fund provides advances to assist in dubbing or subtitling a Canadian production in either of Canada's official languages. Promotion, advertising and marketing finances for Canadian production are available through the Canadian Production Marketing Assistance Fund. The fund is the consolidation of the former National Distribution Assistance Fund and the International Marketing Assistance Fund. The amalgamation recognizes that a comprehensive marketing strategy must tap both markets and therefore assists productions in Canadian and international marketing activities. (Policies: Canadian Production Marketing Assistance Fund:1).

The Interim Financing Fund provides short-term loans to production houses, distributors and exporters. Film festivals and events are supported by the Festivals Bureau of Telefilm in order to make Canadian and international productions more widely known across Canada.

Two funds deserve particular examination for the purposes of distribution: The Distribution Fund and the Marketing Assistance Fund. The Distribution Fund operates to provide annual lines of credit to established, eligible companies through the Principle Fund and individual project assistance for emerging Canadian distribution companies through the Contingency Fund. The Principal Fund is divided amongst 15 Canadian distributors, who may use it towards Canadian theatrical distribution and foreign sale and acquisition (Ayscough,1988:36).

In its first year, the Principal Fund was distributed as follows:

Table 4-3: ALLOCATION OF THE PRINCIPAL FUND

Malofilm Group	$1,600,000
Cinema Plus Distribution Inc.	1,467,731
Norstar Releasing	1,516,458
Festival Films Ltd.	475,000
Alliance Releasing	1,550,000
Cinepix inc.	1,280,136
Brightstar Films Distribution Inc.	365,987
Les Productions Karim inc.	99,083
Prima film inc.	313,666
Creswin Film Distributors Ltd.	66,000
Cinephile Ltd.	102,621
Cine 360 inc.	580,905
Crepuscule International	165,749
Cineplex Odeon Films Canada Inc.*	970,000
Astral Films*	993,673
Total	11,547,009
Unspent Funds	2,252,991

* must spend their funds strictly on theatrical distribution in Canada
Source: Telefilm (1989c:34).

According to Telefilm (1989d:36), each eligible company's line of credit is determined annually on the basis of its financial commitment to the acquisition of rights to Canadian films. Specifically, in the 24 months preceding the application, the distributor must have undertaken theatrical distribution of at least 12 pictures in the Canadian market, of which at least two had to have been certified Canadian films, and in the 18 months following the application, the distributor must have agreements to distribute at least 2 certified Canadian productions. At least one-half of the Canadian productions must be produced by companies which deal at arm's length with the applicant. (Telefilm,1988:5).

All other Canadian distributors may apply to access the Contingency Component whose "participation is made as a contribution to the amounts paid by the distributor for the Canadian and foreign rights to Canadian film acquired with the assistance of this Fund" (Telefilm,1988:6). Such contribution is made on a declining percentage basis in relation to the accumulated points under the scheme prescribed by the Canadian Audio-Visual Certification Office for film certification. In addition, a distributor is eligible to receive a greater percentage of Telefilm assistance if the film received financial participation or support from Telefilm Canada or any other federal or provincial funding agency, excluding a public broadcaster and only a minority contribution from the National Film Board. That is a film with 8 out of 10 points for Canadian content and produced with public financing is eligible for 75 percent of the distributor's guarantee; 60 percent if the film receives 8 out of 10 points and is produced without public funding; and 50 percent if the film meets 6 to 7 Canadian content points.

The following companies accessed the Contingency Fund during the 1988-89 fiscal year of operation:

Table 4-4: ALLOCATION OF THE CONTINGENCY FUND

Aska film international inc.	331,250
Cinegem Canada Inc.	393,000
Creative Exposure Ltd.	2,250
Lapointe films international inc.	77,500
Total	784,000
Unspent Funds	1,050,000

Source: Telefilm (1989c)

From the above table, only about one-third of the funds available to be distributed through the Contingency Fund were allocated. Combining both funds, Telefilm dispersed through the Distribution Fund $12.3 million to 19 Canadian distribution companies in 1988-89. Acquisition and marketing of Canadian film used $9.5 million (77 percent) of the total, with $2.8 million (23 percent) spent on acquiring distribution rights to foreign films (1989c:32).

The Canadian Production Marketing Assistance Fund consists of two funds: The National component for Canadian distributors undertaking marketing activities in Canada for Canadian feature films and the International component for Canadian foreign sales companies undertaking marketing activities in the world market for Canadian feature films. In both national and foreign markets, Telefilm will contribute up to 50 percent of the costs for each of the activities of test marketing, promotion and advertising, and marketing campaign development. Further, the distributor may also access the international component to acquire foreign rights to Canadian feature films using the same system operated in the Distribution Fund. That is a film produced with public assistance is eligible to receive 75 percent of the minimum guarantee if it has 8 out of 10 certification points; 60 percent for films produced without public assistance and 8 out of 10 points; and 50 percent for film with 6 of 10 points.

In July 1989, two announcements were made affecting access to distribution funds. A ceiling of $500,000 per company was established in the Contingency component of the Distribution Fund.

Without such a ceiling, the potential existed, it was believed, to inflate the guarantees granted for rights for Canadian film, and subsequently the fund would be exhausted by the use of a few companies only (Telefilm Canada,1989a). The second announcement was an addition of $800,000 to the National Component of the Marketing Fund. The Corporation believed that the number of Canadian films to be launched before April 1990 would not be sufficiently served with $2 million. National marketing now totals $2.8 million for the fiscal year (Telefilm Canada,1989b).

Recognizing the importance of sound marketing strategies is a positive direction that Telefilm has emphasized. At the production stage, the Corporation now requires an accompanying marketing strategy, including the film's potential domestic and international markets along with its target audience (1989d:14). This goal, representing a direction of long-range comprehensive industry planning, is crucial for Telefilm to foster. It is clearly in line with a marketing-oriented industry that seeks to encourage high quality film production, which can reasonably anticipate a known level of audience penetration.

As distributors are active in participating in feature film production, it is worthwhile to examine the Feature Film Fund and film production. In May 1988, the federal government increased the size of the fund by $11.4 million targeted for production of films written or produced in French or outside the major centres of Montreal and Toronto (Telefilm Canada, 1989d:33). The impact of the financial injection was enormous. According to its Annual

Report 1988-89, Telefilm Canada contributed $36.8 million toward the production and development of new Canadian feature films, which was a 63 percent increase over the previous fiscal year's total of $22.6 million (1989c:26). The budgets of all projects in which Telefilm participated totalled $100.6 million (of which $15.5 million was foreign contribution), an increase of 54 percent over the 1987-88 production budget of $65.5 million.

Of 34 feature films receiving production funding in 1988-89, 14 were French-language compared to eight in 1987-88. These projects received $12.9 million of the $35.4 million production funding assigned. Further, a total of $14.9 million was invested in projects originating outside the two main centres of Toronto and Montreal, a 500 percent increase over the $2.6 million allocated to regional financing in 1987-88. The western provinces were the main beneficiaries. Eleven of 13 regional productions received Telefilm funding, an increase from two in 1987-88.

The number of available programmes offered by Telefilm, and the majority contribution it assumes under each programme, must be very attractive for distributors. The increase was recognized in Telefilm's 1989-90 Strategy statement (1989d:8) where it stated that "a number of recent changes to the fiscal incentives in the film and television production industry have, at least in the short term, resulted in a substantial drop in capital flows from the private sector...private investment overall has proved insufficient in relation to the needs of a booming industry." While Telefilm's answer has been to increase available funds for more film-related activities, it appears to also recognize the irony this presents.

> More generous funding by Telefilm Canada has served to stabilize production activity and ensure continuity. At the same time, however, this practice has meant that Telefilm Canada's increased support is taken more and more for granted. In turn, it seems to have led specifically to a decline in financial participation by other public-sector and private-sector sources. (1989d: 9)

Under previous programmes, Telefilm insisted upon first position of recoupment, in order to replenish its coffers and maintain a high degree of funding assistance. This is no longer the case, since to attract more private investment in production, it will acquiesce to a subsequent position (Telefilm Canada,1989d: 13). In return, it will regard more favourably, those projects which have better private financing, "especially where the increase would lead to a better balance of financial risks for the productions and imply lower contributions from the Corporation" (1989d:13). Perhaps this is another example of the irony of its policies, for while it prefers a substantial level of private financing, it appears to acknowledge the non-reality of this in the current industry structure and almost begrudgingly has increased its programs and funding structures.

Telefilm reports that Canadian private investment in financing feature film production amounted to $19.1 million or 24 percent of production budgets in 1988-89. "This represented a considerable increase over 1987-88, when private sector investment was 16 percent of production costs" (1989c:29). The increase occurred in contribution to English-language films, rising from 17 percent to

29 percent, whereas an actual decline from 17 percent to 13 percent occurred in French-language private investment. The distributors contributed $13.1 million to production of which $4.2 million was used for film financing and $8.9 million as revenue guarantees. The 1987-88 total contribution by distributors was $6.3 million. Also of note is the doubling of contributions from Canadian broadcasters and Pay-TV from $2.7 million in 1987-88 to $5.1 million in 1988-89.

These figures may serve to demonstrate that Telefilm may be increasing its funding in recognition of decreased private participation. While the private sector appears to have responded with film investments, the agency points out in its 1988-89 Annual Report that in 1986-87, before the reduction in tax shelters, the Canadian private sector contributed 34 percent of production budgets, full 10 percent above current levels (1989c:29).

ii. Capital Cost Allowance

The use of the Capital Cost Allowance tax reduction mechanism under the federal Income Tax Act has enjoyed a colourful history. It has already been shown that it was initially ignored as a means of financing, but beginning in 1974, it quickly became the driving force to attract private investment. Only certain productions were eligible - those that met a minimum level of representative Canadian elements were certified - a criterion that continues. By awarding points to showcase Canadians in key creative positions, an assurance could be made that investment was directed to those films benefiting industry development. The certification systems, which differed for television and film, have recently been rationalized.

Today's certification process requires that 6 of a possible 10 points must be acquired by employing Canadians in the following positions:

Director	2 points
Screenwriter	2
Highest Paid Actor	1
Second Highest Paid Actor	1
Director of Photography	1
Picture Editor	1
Music Composer	1
Head of Art Department	1

At least one of the Director or Screenwriter and at least one of the highest or second highest paid actors must be Canadian.

It is also mandatory that 75 percent of total remuneration paid to individuals other than those listed above or for post-production work must be paid to Canadians and 75 percent of processing and final preparation costs must be spent in Canada (Communications Canada,n.d.-B:8).

Satisfying these criteria, the investors having acquired an interest in the copyright of the "master negative," are entitled to depreciate the cost of the investment by claiming Capital Cost Allowance (Barrett,1987:277). The CCA is available to individuals only, not organizations. Essentially, its attraction is to obtain tax relief and is not necessarily an expression of support for the industry. Michael Bergman (1987:6) explains that the CCA provides a means by which the cost of capital assets used to earn income can be written off over a period of time. Further, the "write-off is not a form of tax deduction but of tax deferral since when the object is subsequently sold, an amount equal to the depreciated capital cost (the amount already written off in taxes) is recaptured in income and becomes taxable" (1987:6). However, when the stakes are high enough, the savings can be considerable.

On August 31, 1987, an announcement by Revenue Canada shocked the Canadian film community and the Department of Communications. The 100 percent CCA for certified Canadian film was to be reduced to 30 percent on all film acquired or in production prior to January 1, 1988, with the half year rule still in effect. While the grandfather clause was later extended to July 1, 1988, apparently to allow more films to obtain financing under the old rules, the effects stirred a panic amongst producers who sensed a decline in overall accessible production funds.

Previous to this announcement, CCA deductions were claimed at a rate of 100 percent subject to the half-year rule, which entailed that 50 percent of the cost of the film unit could be taken in the first year and the balance in the next year. The new regulations allow for the investor to deduct 30 percent of the undepreciated capital cost of a film unit where the deduction is spread over two years (the half-year rule). For example, given a $10,000 investment, the taxpayer would only be able to deduct $1,500 of the capital cost of such a unit. In the second year, he will be able to deduct a further $1,500 along with 30 percent of the declining undepreciated capital cost of the unit for the second year and following in subsequent years (Bergman,1987:6). This would of course continue until all eligible Capital Cost is consumed.

New tax regulations appear designed to eliminate former abuses of the system. An additional regulation for claiming CCA is the new "put-in-use" rule which means a taxpayer may only start claiming CCA deductions when the capital assets are put into use. Under these conditions, for film investment where the equity investment and film completion frequently occur in two subsequent tax years, the investor cannot make a claim until the second year (Bergman,1987:6). This radical change was offset by allowing the taxpayer to deduct the undepreciated capital cost of a film unit against any income received in that taxation year from any certified Canadian production.

When a film begins to provide a return for the investor, he may then write off the undepreciated capital cost of a film unit against the income received in that taxation year, thereby avoiding taxes payable on these earnings. For instance, if an investor has remaining CCA of $10,000 in a given year and earns $8,000 in income from his film projects, he may deduct $10,000 against $8,000 leaving $2,000 of unused capital cost. Subsequently, this may be treated to the 30 percent, half-year rule for CCA deduction.

Bergman indicates that the ability to shelter at least a portion of income generated from film units is an attraction of the new scheme. Unlike previous tax mechanisms which did not address income generation, this CCA encourages and rewards it. The scheme will definitely add credibility to the CCA for film investment and to those investing. Yet, Bergman (1987:7) also points out that not only will the 30 percent available deduction increase pressure on government funding sources, but will also promote individual project financing, instead of structural financing which should be an industry objective. Another problem will be for those first-time film investors who will be unable to make any claim on their equity investment in the first year but must wait until the film is completed, usually in the following year.

Commenting on the usefulness of tax incentives as a policy to enhance film financing, Richard Bird (1985:404) suggests that a policy oriented towards tax manipulation "has no direct effect on the content of output or how it is distributed or exhibited". He contends that it will only assist to employ Canadians by focusing on inputs into the production process rather than the outputs themselves (1985:415). Moreover, evaluating the benefits of the tax incentive is very difficult since, in reference to the late 1970s boom-bust era, clear objectives were never stated, providing no standards for measurement. One could argue that a similar situation exists today. While, Telefilm's film production and distribution policies appear to support increasing private investment, specific criteria are not expressed.

Telefilm's Annual Report of 1988-89 acknowledges that the recent increases in private investment still do not match the investment of pre-CCA reduction years. The Report clearly states that "the Corporation plans to do everything in its power to promote financial participation from the private sector" (1989c: 8), which it describes as sponsors, distributors and other investors. Is the taxpayer a vital component of private financing, or is this statement exclusively describing organizations? Combining Telefilm's policy statements with Revenue Canada's tax incentives, the answer is ambiguous. But, Bird's analysis of the effects of tax mechanisms may provide the answer.

If the policy is directed toward the type of films to be produced, "then the most directly relevant policy is public subsidization through the CFDC" (Bird,1985:415). Tax incentives provide short-run industry growth, but cannot sustain long-term industry development. Put another way, in 1982, a study of the various public programs existing in Canada to assist film-makers was released and stated, "Although the Canadian public may temporarily be fooled into believing that they can have their cake and eat it too, ultimately a pervasive substitution of tax expenditures for direct spending is most likely to resemble an enforced diet" (Lyon and Trebilcock,1982:63). While at the federal level, substantial public funding has substituted for large tax shelters, provincial programmes in both Ontario and Quebec have implemented their own mechanisms to encourage private investment.

iii. The National Film Board

The National Film Board is enjoying an emerging role in stimulating private sector production. Historically, it has been discouraged and prevented from penetrating the commercial market, but as of 1986, this has changed. It was provided with additional resources totalling $2.9 million and allowed to invest one-half of its contributions in cash and one-half in technical services to independent productions receiving Telefilm assistance. It committed itself in that year to six feature films over two years (Variety,1986b:45).

The NFB invested $731,836 in cash and services toward the $1,885,000 budget of "The decline of the American empire" (Variety, 1986b:45). In 1988, the NFB was provided with extra funding to further its independent co-productions, and consequently doubled its investments in productions financed by Telefilm. Telefilm's Annual Report 1988-89 indicates, " the NFB's contribution rose from $1.7 million to $4.4 million in 1988-89, i.e. 5% of production costs" (1989c:29). With the quality of films for which the NFB is noted, an amalgamation with independent producers is certainly of mutual benefit. In addition, the production is not disqualified for application to the Distribution Fund, so long as NFB support has been a minority portion (Telefilm Canada, 1988: 6).

4-II-B. CANADIAN PROVINCIAL FILM POLICY

Perhaps because of its more recent and limited involvement, analysis of policies at the provincial level in Canada, with the exception of Quebec, have been ignored. Constitutionally, their powers to enact legislation are restricted to theatrical exhibition only, which may have dampened initiatives to become involved more fully. Examination of film policies in place in the two Canadian provinces which have the most active film industries will now be conducted. A complete examination of all provincial policies is not conducted only to avoid duplication.

i. Ontario Film Policy

As early as 1917, educational film activity began in Ontario with the Ontario Motion Picture Bureau. In 1924, the government purchased a studio in the Trenton, Ontario area and began making and distributing its own films. By 1925, it had a library of 2,000 films and was distributing 1,500 reels of film per month (Clandfield,1987:9).

But the coming of sound demanded addition and replacement of equipment, an expense apparently not possible for the Bureau. It did not take long for its film equipment and productions to be out-dated once talking pictures became standard. When the Liberals won the election of 1934 on a platform of government cutbacks, the Bureau was scrapped (Clandfield,1987:9).

In 1973, informal voluntary quota agreements were negotiated between the two major chains, Famous Players and Odeon, and the

Secretary of State. These came as a result of a failure by provincial governments to agree on the appropriate measure to encourage exhibition of Canadian film. At least two weeks of theatre time in Toronto, Montreal and Vancouver were guaranteed for every major English-track feature with a release into smaller markets for successful films. Approximately twenty Canadian films received exposure over the two-year agreement (Lyon and Trebilcock,1982:91).

Not until 1975, was any further action taken by the province and that only with a push from Ottawa. Provincial ministers and deputy ministers met with the CFDC to investigate the imposition of film quotas and levies. While there was support for quotas in some provinces, there was absolute reluctance to place a tax on theatre tickets for the levy. No provincial action occurred (Spencer,1983:15).

Instead, the Secretary of State renegotiated the voluntary exhibition agreements in 1975 and won not only longer play-time (four weeks) with more screen access for each film (every theatre owned or controlled by the chain), but also a commitment for an investment program. Famous Players committed $1 million and Odeon promised $500,000 towards investment in Canadian films for the next year (Lyon and Trebilcock,1982:92). In the end, Famous Players invested approximately $2.1 million and Odeon put up over $550,000. Investments quickly halted with announcement of the intentions to implement the levy system.

In 1979, Ontario used the success of its lottery, Wintario, to encourage provincial support for Canadian-produced arts including film. Under the system, losing Wintario tickets were worth $.50 each to a maximum of $2 toward the price of admission to a Canadian feature film. Approximately 200,000 people took advantage of the offer (Lyon and Trebilcock,1982:54). During the life of the program, two films in particular received high levels of support, "Jacob Two-Two Meets the Hooded Fang" and "Meatballs", which led to an increase in aid to the industry.

ii. Ontario Film Development Corporation

Responsibility for the film industry had been divided between the Industrial Development Branch of the Ministry of Industry, Trade and Technology and the Arts Branch of the Ministry of Citizenship and Culture. In 1983-84, a report for the Ministry of Industry, Trade and Technology on the provincial industry recommended the creation of a film development corporation which would oversee the programs of both ministries and develop new financial and assistance programs for the production/distribution industry (Henley,1886:16).

The Ontario Film Development Corporation, a Crown agency, reporting to the Legislature through the Minister of Culture and Communications was created on January 1, 1986 and opened on April 1 of that year. Acting as a funding organization, its focus, according to OFDC Chairman Wayne Clarkson, was towards feature film, since at the time, Telefilm's orientation was toward television production: "There has been a noticeable drop in feature film production in this country. In setting up the OFDC, we had to address that drop... Certainly we will be compatible with the programs in Telefilm, but it is not our intent to duplicate those programs" (Henley,1986:16). This philosophy was reiterated in a personal interview with the Manager of Sales and Distribution, Shane Kinnear in May 1989. The OFDC set as its priority low-to-medium budget feature films aimed at the theatrical market.

It was given $7 million and developed three programs to address provincial filmmaking needs (OFDC,1987:6):

> 1. Production and Development: Assists in financing film and television productions, from script development, through production, promotion and distribution, both domestically and internationally. Program includes Special Projects.
>
> 2. Location Promotion and Services: Promotes Ontario locations to film and television companies across Canada and around the world and provides services to these productions.
>
> 3. Corporate Management: Administers Guaranteed Lines of Credit Program and liaises with the provincial Ministry of Revenue on the Small Business Development Program it applies to film and distribution companies.

In its first year of operations 1986-87, the OFDC administered $3,518,000 through its Production and Development assistance programs. About 75 percent ($2,620,000) was invested as capital participation, 20 percent ($745,000) as loans, and 5 percent ($153,000) given as grants (OFDC,1987:17). The breakdown of its assistance was reported as follows for fiscal years 1986-87 and

1987-88:

Table 4-5: OFDC ANNUAL BUDGETS: 1986-87, 1987-88

	1986-87	1987-88
Production	$ 2,620,000	$3,774,000
Development	745,000	895,000
Special Projects	149,000	551,000
Distribution	4,000	73,000
Total	3,518,000	5,293,000

Source: Ontario Film Development Corporation (1988c,1987)

In 1987-88, $562,000 was allocated as grants, $957,000 was committed as loans and $3,774,000 was invested as capital participation (OFDC,1988c:21).

It would appear that creating the OFDC was well worthwhile, for during the first eight months of 1986, there was a 130 percent increase in the total expenditures on productions in Ontario over the first eight months of 1985. (Cinema Canada,1986a:60).

Wayne Clarkson described the dilemma of the funding agency, whereby on the one hand, the corporation is market-driven and expects a return on its investments, but it also has assumed a responsibility to develop new talent: "to take risks, where the private sector is not in a position to take a risk, or where the investment funds are insufficient to take that risk" (Henley,1986: 17).

Thus in the interest of developing emerging film talent, the OFDC has ensured flexibility with its financing programmes. The guidelines for project development state that "the OFDC will participate in any stage of a project's development, normally to a cumulative maximum of $35,000. In the case of a theatrical feature film project, the OFDC may participate to a cumulative maximum of $50,000 (OFDC,1988a:8). With regard to financial participation in theatrical features, while a maximum of $500,000 can be invested because of budget limitations, no percentage restriction has been stipulated. According to Clarkson, a considerable amount of discretion has been built into the system in order to allow flexibility and additional funding to those productions which express an Ontario-flavour (Henley,1986:18). Only made-for-television productions have a participation percentage limit of 33.3 percent.

According to its 1986-87 Annual Report, the OFDC (1987:7) assisted more than 171 companies and individuals. Further, much of this support was directed to productions with budgets below $3 million. In 1987-88, the Corporation made financial commitments to 179 projects (OFDC,1988c:13). The agency's vision of a "risk" fund or "development fund" does not seem to overshadow the marketability of the project. "At some point the commercial community has to accept it [the film] for us to be involved in it" (Henley,1986:18). Clarkson underscores the pragmatic philosophy contained in OFDC's expectations:

1. The project must prove to be of benefit to the province of Ontario.

2. There must be participation from the private sector.

(Henley, 1986:19)

What is a benefit to Ontario? "It's got to create jobs; it's got to make use of facilities that exist here, and it's got to be made available to the public of Ontario" (Henley,1986:18).

The following year, the OFDC expanded its commercial emphasis by adding the Sales and Distribution Programme to market Canadian feature films and television programmes both nationally and internationally. Under the Domestic Marketing programme, the OFDC will provide loans to distributors to a maximum of 50 percent, or up to $25,000 of the costs relating to the release and exhibition of certified Canadian features for the theatrical market in Ontario. Thus these films need not be strictly Ontario productions but must be a Canadian production. However eligible distributors must be Ontario-based. Under the Export Marketing Programme, Ontario-based distributors and producers are assisted in acquiring foreign sales of Canadian productions through either group sales missions or individual sales missions.

Certainly the addition of this programme provides more comprehensive assistance to a project by ensuring that those projects worthy of production assistance have an opportunity to enjoy exhibition. The OFDC promoted "Family Viewing" and "A Winter Tan" at the Berlin International Film Festival with a $28,000 expenditure. Together these films achieved foreign sales of $662,000 (OFDC,1988c:10).

In 1987-88, two applications totalling $350,000 for Guaranteed Lines of Credit administered under the Corporate Management Division were approved. This program is aimed at providing overall stability for companies in an "inherently cyclical business" (OFDC, 1988c:12). Many distributors and producers find themselves cash-short immediately upon project completion and before returns materialize. A program designed to carry the company through these periods and allow continued project development is, according to Wayne Clarkson, "possibly the most constructive program we have" (Henley,1986:19). This addresses the tardy flow of industry financing. Not only does the stability rely on finances, but on consistent financing over time. Canadian-owned and controlled production companies with 75 percent of the shareholders and employees living in Ontario are eligible.

Just a year old, the Ontario Film Investment Program was announced in February 1989 and was implemented to replace the federal government's reduction of the CCA to 30 percent. The Ontario government was also concerned over Quebec's 166 percent film investment tax break and its potential drain on the Ontario industry (Cinema Canada,1989a:43). A total of $30.8 million was set aside to provide Ontario investors with a credit of up to 20 percent on their investments in certified Canadian films produced by Ontario-based companies. Using the certification point system, those productions with more key Canadian creative personnel will be eligible for a larger credit, paid in cash after the production has been completed and audited. OFIP is a two-year program in which the Ministry of Culture and Communications expects to stimulate a minimum of $75 million in private sector investments in the first year and roughly $120 million in total film production. Yet the fund was considered to be temporary, for upon announcing its creation, then Ontario Minister of Culture and Communications Lily Munro said, "We hope the federal government will develop a meaningful national approach that will make provincial programs unnecessary" (Cinema Canada,1989a:43).

iii. Quebec Film Policy

Quebec has certainly been on the leading edge in creating legislation and implementing programmes designed to promote a provincial industry. Its programmes, while unpopular with the rest of Canada, illustrate the difficulty involved in attempting to enact effective distribution legislation.

June 1983, Quebec's Cinema Law, Bill 109, was passed in the Parti Quebecois-controlled National Assembly, despite the objections and protests of the Motion Picture Association of America. The new law dictated the conditions for distribution of feature film in the province. Under section 104 of the law, all feature films were to be distributed by Quebec-based companies. Section 105 of the Bill essentially said that a special distributor's license could only be issued to a film's producer or to the holder of a film's world rights, so long as this person had been operating in Quebec prior to December 17, 1982.

The regulations described a "producer" as the person who represents at least 50 percent of the financial interests of a film in the form of money, goods or services. "World rights" was defined as having distribution rights in the markets of Canada, U.S.A., Belgium, Luxembourg, the Netherlands, Denmark, France, West Germany, Ireland, Italy, Great Britain, Greece, Spain and Portugal (Cinema Canada,1985a).

Neither Quebec filmmakers nor the MPAA were satisfied with these definitions and made several formal and informal presentations to the Minister of Cultural Affairs, the Institut Quebecois du Cinema and the Regie de Cinema. The Quebec group along with the MPAA pushed for a stronger definition of "producer" to be one "who holds the copyright to the screenplay on the first day of principal photography," and the "world rights" definition should be exactly that, not restricted to North America and Western Europe (Cinema Canada,1985a). For his part, Jack Valenti, representing the MPAA described the law as:

> "restrictive", which defines the rights of a non-Quebec producer in such a way that would make it impossible for him to license his films in Quebec; it constructs unnatural arrangements between theatre-owners and distributors which makes both of them very unhappy; it has very restrictive covenants about home video and videocassettes. It's a very difficult law and makes it very difficult for non-Quebec companies to literally do business in Quebec.
> (Cinema Canada,1985c:55)

Other American distributors were concerned that Quebec-based distributors would not be financially capable to distribute American films. (Cinema Canada,1985a).

Certainly public support was in favour of local filmmakers to ensure that a pro-Quebec Act was enforced. But less than a week prior to the election of a new Liberal government in Quebec, the

Parti Quebecois government decided not to approve the distribution regulations of Bill 109. It was reported that the U.S. State Department warned then Quebec Cultural Affairs Minister, Gerald Godin, that should the regulations be passed, a written protest would be delivered to Ottawa, theatres would be boycotted in Quebec and it was made know that then President Reagan was "taking a personal interest in the situation" (Cinema Canada,1986c:42). The U.S. Consulate in Quebec City confirmed that it contacted provincial ministers to safeguard the commercial interests of these American companies.

Under the new Liberal government, an agreement was reached with the American majors in October, 1986. Films in a language other than English must be distributed by Quebec-based distributors unless the Major has invested 100 percent of the production cost. English-language pictures could be distributed in Quebec by the majors, if the particular distributor had been a member of the MPAA prior to December 31, 1982, or if they held rights to the film in the U.S.A., Canada, the European Common Market, Japan, Australia and New Zealand. Should rights not be held in those countries, the distributor must have invested or expect to invest 50 percent of the budget or $4.5 million for prints and advertising. Canadian distributors, not 51 percent Quebec-owned could operate in Quebec only through subdistribution agreements with Quebec distributors (Variety,1986a:104).

It is expected that this law will deliver one-half of the theatrical market into the hands of Quebec distributors who had previously controlled only three percent (Cinema Canada,1988b:65). This translates into $35 million in revenues of a $150 million theatrical film and video rental market in the province. The law also provides funds towards technical renovations of theatres in rural neighborhoods to encourage upgrading.

However, absent from the 1988 enactment was the amended version of Article 83 which limits to a single copy the number of prints to an English-language film that can be exhibited in Quebec unless French-language versions are exhibited simultaneously. This proposal, part of Bill 59, updating the Cinema Act, was a contentious point between distributors and policy-makers. A prescribed 60-day period was the maximum that an English-language print could be shown before a French-language version was made available in theatres. Distributors claim that Article 83 will lead to fewer films being available, not more, since few films generate a sufficient profit to warrant dubbing" (Cinema Canada,1988c).

But exhibitors claim that a majority of francophones would prefer to see a dubbed version of a film than the original English-language print (Cinema Canada,1988e). They point to research which demonstrates that in 1987, 62 percent of the Quebec French-speaking audience viewed American films in the French version, and only 38 percent in the original version (Cinema Canada,1988e). This has translated into higher box office grosses for the dubbed versions of feature films than the original. At the same time, exhibitors recommend greater flexibility in the law to accommodate less popular films and the urban-Montreal English-language film audience. In each case, more English-language prints (five to six for Montrealers and three for less popular films) should be available prior to the release of dubbed versions.

iv. Quebec Stock Savings Plan

Quebec has addressed the issue of private financing through a provincial scheme, similar to the federal Capital Cost Allowance, called the Quebec Stock Savings Plan (QSSP), available to Quebec taxpayers. The film must be certified Quebecois by the Institut Quebecois du cinema and meet a minimum six of a possible ten points to determine eligibility. Similar to the system used by the Canadian Film and Video Certification Office, eligible personnel must be persons residing in Quebec. In addition, a minimum of 75 percent of total fees are to be paid for services rendered in Quebec (Cinema Canada,1984d:29).

The QSSP has experienced almost as much transition as has its federal equivalent. Introduced at 150 percent in 1983, it was reduced to 100 percent in December 1986. Upon the 1987 announcement of the federal CCA decrease from 100 percent to 30 percent, the QSSP was increased to 133.3 percent. In 1988, it was again raised to 166.6 percent. The QSSP is considered to be an important vehicle to raise private investment, particularly as the province's limited market size makes it much more dependent on private sources (Cinema Canada,1988d).

4-III. POLICIES OF OTHER SELECTED NATIONS

A. Australia

The parallels between the structure of the Canadian and Australian film industries are too numerous to go unmentioned, particularly with respect to government intervention. A comparison of their development and current structures is justified in order to determine potential courses of action.

During the post World War II era, with no domestic industry of its own, Australia relied almost entirely on the U.S. and Britain for its films. Then in 1963, a Senate Select Committee was set up to investigate Australian television production. Discouraged by the collapse of the film industry, the report recommended (McFarlane,1987:20):

1. One million pounds be made available annually as government aid to filmmaking;
2. A system of tax relief for investors and tax concessions for producers be established;
3. The Department of Trade should provide knowledgeable assistance with overseas markets.

Therefore an awareness of the importance of foreign exhibition was recognized early on in developing the Australian industry.

Not until 1967 and the creation of the Australian Council for the Arts (a federally-funded body) was any further action taken. After a global trip to study government-assisted film industries, the resulting report recommended, and the government established (McFarlane,1987:21):

1. the Australian Film Development Corporation (AFDC) to assist the financing of feature films and television programmes to establish a commercially viable industry;
2. the Experimental Film and Television Fund to provide assistance for short films and new filmmakers;

3. the National Film and Television School which began in 1973.

Then in 1972, the Tariff Board inquiry investigated the role of exhibitors and distributors in the industry. Initially producers were at odds with distributors and exhibitors, who maintained they had no influence as to which films received government funding. The inquiry resulted in heightened awareness of the potential for a film culture in Australia and saw the exhibition sector begin to invest in film production (McFarlane,1987:24).

The Australian Film Commission (AFC) replaced the AFDC in 1975. It was to encourage production through financial assistance, and was expected to facilitate the exhibition and distribution of Australian film. It did not take long for the state governments to create their own film agencies to invest in and develop films about their states: South Australia Film Corporation (1972); Film Victoria (1977);New South Wales Film Commission (1977); Tasmania Film Corporation (1977); Queensland Film Corporation (1977); Western Australian Film Council (1978). But clearly the predominance of the AFC is evident with the average film receiving 50 to 60 percent of its production costs, 75 to 80 percent of marketing expenses and 95 percent of the vital script development being AFC-originated (McFarlane,1987:25).

But with the introduction of the 10BA tax incentives in 1981, AFC film investments decreased. Its role emerged to enhance the film package to encourage private investment through marketing assistance, completion guarantees, underwriting, etc. (Jacka,1988b:39). Examining issues surrounding the film industry's development became the AFC's primary function.

In the meantime, the 10BA incentives boomed and created tremendous private financing. Under the original 150/50 formula, the scheme allowed deductions of 150 percent for approved investment in Australian film with a 50 percent deduction on any return on that investment. The scheme was changed in 1983 to 133/33 and further reduced in 1985 to 120/20.

But a reality familiar to Canadians involved in film investment in the late seventies are the dictates of private interests. The industry became a slave to raising and controlling private financing through the myriad of specialist institutions which sprang up to service the need. The importance of presales, particularly in the international market, encouraged formula films with few aesthetically redeeming qualities (Jacka,1988a:13).

With the 1983 10BA reductions, the Special Production Fund (SPF) (set at $5 million a year for two years) was created to balance a predicted decline in private investment. The fund provided direct investment, underwriting, marketing, loans and bridge financing to eligible applicants. But the prevailing investment climate still dictated the importance of presales and the overall financial package to the neglect of the project's merits. As shown in Table 4-6, a drastic decline in production did not materialize as a result of revision of 10BA financing. The SPF was financing only those projects with a market niche.

Table 4-6: VALUE OF AUSTRALIAN FILM PRODUCTION

Year	Budget Value ($ millions)	No. of Projects
1980-81	57.93	41
1981-82	17.65	13
1982-83	73.33	36
1983-84	76.00	30
1984-85	67.43	31
1985-86	105.60	36
1986-87	77.90	29

Source: Australian Film Commission (1988:16-17)

But in 1985, SPF guidelines were changed such that it was responsible only to "fine-tune" the market. Further in 1986, SPF shifted to financing low-budget features which were unattractive to investors. At the same time, the AFC replaced its single funding programme with:

1. the Applications Programme (continuation of current arrangements);
2. Entrepreneurial Programme (AFC actively seeking out producers and writers);
3. Joint Ventures between the AFC and producers to develop scripts (Jacka,1988b:43).

In 1988, further changes were made to the financing climate. Division 10BA tax concessions were reduced to 100 percent with all returns from the investment treated as taxable income (Australian Film Commission,1988:14). The Australian Film Finance Corporation was created and in 1988-89 given $100 million to invest in those projects with a minimum of 30 percent private sector participation (Australian Film Commission,1988:14). Actually only $70 million dollars was publicly provided, with the balance of $30 million expected to be forthcoming (Jacka,1988a:19). In addition, the AFC received $15.5 million to continue financing low-budget, experimental film (Jacka,1988b:49).

Clearly the Australian example shows as much government intervention and experiments in film as does the Canadian example. Each has a small domestic market insufficient to support a feature film industry. Direct government funding programs and tax incentives have played roles in film financing, with private investment through tax incentive more encouraged in Australia, and federal funding more important for the Canadian industry. A further distinction is the system for film certification. Canada's is very rigid with the precise addition of points acquired by employing Canadians and specific budget expenditure requirements. The Australian system incorporates the nationality and residences of those involved in the creative process, but stresses as more important, a significant Australian content in the film (Tadros,1983:20).

The industry concern over foreign companies using Australia merely as a location echoes,to some degree, Canada's situation (Jacka,1988c:55). While the Locations Promotion programme of the OFDC in Canada promotes Ontario's attractiveness to primarily foreign production companies, this certainly comes after a degree of domestic stability and an infrastructure has emerged in Canada. The concern of the Australian industry toward the reliance on the whims and successes of foreign producers mirrors Canada's era of CCA heyday and the "Hollywood North" syndrome during the late 1970s. During this time, many films were produced in Canada merely for the financial gains afforded to film investors by the Capital

Cost Allowance. Their value was not intended to be realized at the box-office but by Revenue Canada at tax time. If these films were unsuccessful, investors not only had claimed Capital Cost, but would also avoid paying taxes on any earned revenue.

In addition, Australia's domestic market shares similarities with Canada. In 1980, 14 of a total of 247 films released theatrically were Australian-produced (5 %). In 1982, 27 of 227 were Australian (12 %), and 26 of 249 were Australian in 1986 (10 %). This compares positively to Canada's dismal records. For instance in 1980, of 759 films released in Canada with known origins, 44 films were Canadian (5 %) (Statistics Canada,1980:27). In 1982, of 482 films released in Canada with known origins, 35 were Canadian (7 %) (Statistics Canada,1982:27). In 1986, only 2 percent of the films in the Canadian market were of Canadian origin (23 of 1236 released with known origin) (Statistics Canada,1989a:42).

However, considering that Australia does not share its borders with the biggest entertainment exporter in the world, the numbers are not impressive. Perhaps it is indicative of the strength of the Motion Picture Distributors Association of Australia which represents the interests of seven member companies of the Motion Picture Export Association of America (Australian Film Commission, 1988:7). The AFC (1988:36) reported that box office receipts have fluctuated in the 1980s beginning with $158.8 million in 1980, reaching a high of $216.3 million in 1982, decreasing to $160.7 million in 1984 and rebounding to $194.3 million in 1986.

The important question is what percentage has remained in Australia. Examining the state capital city cinemas and the receipts of Australian vs. foreign film, the Australian Film Commission reported (1988:37): In 1984, 6 percent of the box office went towards Australian films; 1986, 18 percent was Australian (the year "Crocodile Dundee" was released) but declined again to 7.3 percent in 1987.

B. British Film Policy

Examining the need for implementation of a protectionist policy toward a cultural commodity, one may be inclined to think of only those countries with less developed infrastructures to produce these products. Problems of small domestic markets appear to be a common thread of Canada and Australia, particularly for a financially-demanding product such as film. However, it has happened that even the highly developed nations of Western Europe, rich in capital resources and comparatively densely populated, must rely on some sort of government protection. on some sort of government protection.

> Most other industrialized countries (besides the U.S.) have access to domestic markets of less than 100 million inhabitants. In this context, national film industries must on the one hand adapt their economies, their budgets and their means of financing to the dimensions of that domestic market. On the other hand, these industries must provide competitive cultural products that respond to both the public's expectations and prevailing international standards.
>
> To help their industries meet this challenge, the governments of Australia, Brazil, Japan and almost all the European nations have adopted permanent measures to stimulate and support their domestic industries. (Report on the Film Industry Task Force,1985:26.)

Great Britain, although an ocean apart, shares a common language, values and social structures with the U.S. It did not take long for American filmmakers to realize the profit potential, for in 1918, at least 80 percent of the films shown in Britain came from Hollywood (R. Murphy,1986:51). The implications of this industry domination for a country such as Britain with an intricate network of colonies throughout the world was grasped as early as

1926 during the Imperial Conference.

> The importance and far-reaching influence of the cinema are now generally recognized. The cinema is not merely a form of entertainment but, in addition, a powerful instrument of education in the widest sense of that term, and, even where it is not used avowedly for purposes of instruction, advertisement or propaganda, it exercises indirectly great influence in shaping the ideas of the very large numbers to whom it appeals.
> (Quoted in Swann,1987:129).

By the 1930s, the British government adopted the attitude that Hollywood should be challenged by encouraging the domestic industry. The government targeted distribution and exhibition first. In 1927, the first Cinematographic Films Bill was enacted introducing a compulsory quota, under the Quota Act, for exhibition of British film at 5 percent for exhibitors, increasing by 2 1/2 percent annually to reach a maximum of 20 percent by 1936 (R. Murphy,1986:52). This ensured a steady demand for British productions, such that by 1932, when the quota was 10 percent, British films were actually occupying 24.27 percent of screentime (R. Murphy,1986:54).

In 1936, the creation of an independent advisory body to oversee and control the industry and maintain quality in the film industry was put forth by a Board of Trade committee investigating the future of the Quota Act, due to expire in 1938. The industry united against the recommendation and was able to convince the Board to settle for the creation of the Cinematographic Films Council, an industry-dominated body, which was to "monitor" the industry and submit reports. Quotas were fixed at 12 1/2 percent.

Throughout this decade, the implementation of the quota system, to the neglect of fostering indigenous production, led to the "quota quickie." British film production proliferated and private financing was very available as an imposed quota system practically guaranteed a market. The second Cinematographic Films Act while reducing the quota, mandated a minimum quota film cost of 7,500 pounds.

The second Cinematographic Films Act expired in 1948. After the second World War, during which British resources were devoted to the war efforts leaving screens open for American films, the Film Finance Company was created. This body was given powers to borrow 2.5 million pounds on Treasury guarantee to finance qualified independent producers (Swann,1987:133). The company was replaced in 1949 by the National Film Finance Corporation (NFFC) set up under the Cinematographic Film Production Act with power to borrow up to 5 million pounds from the Board of Trade. The Corporation was to lend to film distributors who would invest in film productions (Swann,1987:133). It was believed the NFFC would no longer be necessary in five years.

By 1950, it became evident that the NFFC would not be so temporary. The British Film Production Fund, begun in 1950, was a voluntary arrangement, whereby exhibitors agreed to pay a levy on the price of each cinema ticket. This levy would then be paid into a fund and shared amongst producers according to their box office earnings. The exhibitors in return received a reduction in their Entertainments Duty (Petley,1986:37). The plan, which was popularly known as the Eady Levy, was very successful giving producers an extra 1.5 million pounds and therefore became statutory in 1957.

In the meantime, the NFFC was enjoying its own success.

> Between 1950 and 1956, 56 percent of the British first features released on the three main circuits were partially funded with NFFC money. Furthermore, the NFFC was not the massive burden on the taxpayer which its critics claimed... The Corporation lost 669,345 pounds in 1949/50, but its loss was only 45, 851 pounds in 1952/53, and in 1951/52, it actually recorded a profit of 10,891 pounds. By the end of the financial year in 1953, the Corporation had an accumulated deficiency of 1,410,155 pounds.
> (Swann, 1987:135-136).

Both of these programmes continued throughout the next two decades but in 1970, the NFFC, while provided with an additional 1 million pounds, had its powers and scope severely cut. Labour governments of the era, while sympathetic to the needs of the industry, seemed unable to successfully pass legislation for assistance, because of political priorities.

In 1980, the Conservative government ended funding for the NFFC which was now deemed to be financed by the Eady Levy. The next year, cinema attendance in Britain fell to an all-time low of 63.8 million and only 26 British feature films were given theatrical release (R. Murphy,1986:67). At the end of 1982, the quota was suspended and was not to be reintroduced.

But in 1984, with the Eady Levy raising about 4.5 million pounds per year (Petley,1986:38), it too was abolished. Further, the NFFC was dismantled and replaced by the British Screen Finance Corporation, a consortium comprised of Thorn-EMI, Rank, Channel 4, and the British Videogram Association (Petley,1986:40). One-half of the Corporation's annual budget of three million pounds is public funds and its goal is to provide up to one-third of the financing for between 8 and 10 low-budget films per year (Petley,1986:40). The government, according to Murphy (1986:69), contends that "the film industry is robust enough to stand on its own two feet - though ironically a year or two ago the argument would have been that the industry was such a sickly lame duck that the kindest solution to its problems would have been some form of euthanasia."

4-IV. EMERGENT AND PROSPECTIVE CANADIAN POLICIES

A. The Free Trade Agreement

The Free Trade Agreement between Canada and the United States is only a little over a year old. The pact liberalizes trade gradually over ten years by eliminating tariffs on American and Canadian goods and services traded between the two countries and established trade dispute mechanisms to resolve more quickly those issues causing concern.

The Conservative government has announced it will not issue a report on the status of the Canadian economy thus far under free trade since the effects of the agreement can not be isolated against other critical factors in the economy: the rising Canadian dollar and high interest rates. Coupling these effects with the fact that the Free Trade Agreement will be implemented over ten years, it seems a little premature to make any kind of intelligent analysis at this point.

Canadian cultural groups were amongst the most adamantly opposed to the Agreement since the idea of free trade with the Americans surfaced once again in the mid-1980s. Many have remained opposed and while as of yet, the demise of the CBC, CRTC, national and provincial arts councils, nor Telefilm has occurred as some had predicted, the FTA could have repercussions on nationalizing Canada's film distribution industry because of its specific language.

Article 2005 of the Free Trade Agreement states that "Cultural industries are exempt from the provisions of this Agreement, except as specifically provided in Article 401 (Tariff Elimination), paragraph 4 of Article 1607 (divestiture of an indirect acquisition) and Articles 2006 and 2007 of this Chapter" [retransmission rights and print in Canada requirements]. The meaning of the term cultural industries is defined in Article 2012 where, amongst others, it includes: "the production, distribution, sale or exhibition of film or video recordings." This article then, while exempting the cultural industries from the regulations of the Agreement, leaves current practices and procedures in place.

What does this suggest? Robert Lantos, one-half of RSL Enterprises, was asked in 1986 what impact Free Trade would have on the film industry and replied, "There is what you call free trade (now)" (Davis,1986:8). Certainly this is the contention of many reports on the Canadian industry; that the Majors' control over the entire North American market constitutes free trade.

But the form of free trade in practice in the film industry is rather dissimilar to the Free Trade allowed for in the bi-national agreement. For the free trade enjoyed by U.S. Majors and supported by their structural advantages through vertical integration is unmanaged free trade. It relies completely on free market mechanisms. The Free Trade Agreement, despite its name, is still managed trade. It very clearly sets out terms and conditions for allowing more goods and services to cross the border, but under controlled conditions.

Part 2 of Article 2005 states "Notwithstanding any other provision of this Agreement, a Party may take measures of equivalent commercial effect in response to actions that would have been inconsistent with this Agreement but for paragraph 1." This clause has been very troubling for the filmmaking community for, while the effect of these articles is to claim this statement is to exempt the cultural industries from the Free Trade Agreement, on the other hand,they are still expected to uphold the terms of the Agreement or face possible trade retaliation, in film or any other industry. Michael Bergman (1988c:15) highlights the potential outcomes as a result of the ambiguous wording of the Agreement: " The long and short of it is that the only way to protect cultural industries is by their complete inclusion or exclusion in or from the Treaty. The current language of the Treaty does neither and consequently leaves Canadian cultural industries vulnerable."

Further, the government's potential to implement legislation is left in doubt, since it is reasonable to conclude that potentially any policy that boosts the industry may be considered discriminatory. For instance exhibition quotas, subsidies, or international co-production agreements may not meet rules of origin standards, which provides the minimum level of national content prescribed under the new regulations. "Section 2005, in excluding cultural industries from the Treaty and the application of the Treaty, nowhere says the government has the right to legislate or regulate cultural industries" (Bergman,1988c:14).

Thus it has been argued that, while trying to protect cultural industries by excluding them from the Agreement, in fact, the

"Notwithstanding" clause nullifies these intentions (Cinema Canada 1988a:4). If this assessment is accurate, what can we reasonably expect from the Canadian film industry given a mandate to foster and promote Canadian culture? Those predicting the worst all along would have us believe that Canadian culture, under Free Trade with an ambiguous position for the cultural industries, will go the way of silent film. "If you are going to be reducing barriers to trade, you must protect the Canadian cultural industries because we are fragile, because we are desperately important to the health, vitality and identity of this particular country" (Davis,1986:10). Desperately important? The implication that without a film industry Canadian culture will die seems a little sensational.

Charles Pullen (1988:888) presents another point of view in "Culture, Free Trade and Two Nations":

> If we are going to think of culture as an important aspect of the free trade question, we had better define the word. We had better stop thinking about it in terms of "quantity" which can be satisfied by filling the radio airwaves with undistinguished rock-and-roll - acceptable as long as it is played by a band from Sudbury or Winnipeg, but not if it comes from Des Moines.

Pullen (1988:891) argues that we have considered culture from a quantitative or business standpoint which while effects to smugly segregate us from the U.S., probably has little to do with the realities of Canadian identity. Subsidized postal rates for Canadian magazines or content quotas for television programming or musical groups on radios provides little to enhance cultural identity.

> The French-Canadian, the Newfoundlander and the Ottawa Valley natives are culturally doubled; at the core they are committed to their regional uniqueness, the central touchstone of their cultural identity, but they are instinctively aware of their national connections. The idea that economic changes are going to sweep all that aside seems to be clearly inconsistent with what has happened in other parts of the world. Indeed, if the Market [the EEC] has proved anything, it has confirmed the idea that nothing will ever change the French (1988:891)

Of course, Canadian culture will not collapse overnight because of an ambiguous clause in a 300-page international agreement. However, "cinema is a powerful and prestigious means of expression, disseminating ideas and inspiring cultures around the world. Canadians must control their own access to these cinematographic works of creativity and imagination, and direct their dissemination across the country" (Report of the Film Industry Task Force,1985:14).

With respect to the feature film industry in Canada, Michael Spencer (1987:10) applied these ideals to the domestic market:

> The future of Canada as a cultural entity with its own literature, poetry, music, drama, and above all, the popular arts of film and television, must depend on two foundations of equal strength. First, the creative ability of the artists themselves and the energy of the entrepreneurs who will bring their works to public attention and, secondly, the determination of government to back their efforts with financial assistance and regulation required to give them a share of their own market. I hope I have convinced my readers that, so far as the American motion picture industry is concerned, the latter foundation cannot be laid in the sands of good intentions and voluntary arrangements.
>
> It is ineffective, in my view, to keep talking about deals and negotiations when the other side knows very well we have no real regulations or legislation to back up our negotiating position. It's a game of poker against some of the most skillful players in the world

> with the collective wisdom of years of experience. We, on the other hand, bring in new players every couple of years. Worse, in Quebec recently when we finally seemed to be in a strong position, we just threw in our hand. Nevertheless,... if we played our cards more effectively we could get some important concessions.

Whether the Free Trade Agreement protects or ruins the Canadian film industry does not mean the end of Canadian culture to-morrow or probably ever. But, if government support is crucial to the industry and is predicated on ability to implement protective legislation, the agreement may make these goals much more difficult to achieve.

B. Film Products Importation Act

Following on the heels of the province of Quebec's attempts to negotiate an understanding with the Majors over the distribution rights in the province, the federal government, in February 1987, announced its intentions to introduce legislation to regulate the importation of film products into Canada. The announcement was in response to the recommendations of the Report of the Film Industry Task Force, submitted to the government a year earlier, for a feature film fund and the Canadianization of the film distribution industry. Timmins (1987) in "Curtains for Act?" documents the sequence of events leading from the Film Industry Task Force Report to the signing of the U.S.-Canada Free Trade Agreement, which he contends prevented any substantial debate or legislation. American intervention during this time included Paramount's acquisition of the Canadian distribution rights of Atlantic Releasing, eliminating the sub-distribution agreement between Atlantic and Norstar, whereby the latter lost its rights to sub-distribute many independent U.S. and foreign titles.

The recommendation of a fund to produce feature film had been answered in July 1986 with the creation of the $33 million-a-year Feature Film Fund. The distribution recommendation proved more troublesome with Free Trade talks beginning. Yet in February, 1987, the National Film and Video Products Act was announced, which was to introduce a system to license the importation of commercial films and video. The system would allow Canadian distributors to earn more from the Canadian film market and thus re-invest these funds back into the Canadian film industry (Cinema Canada,1987c: 35). It was believed that about seven percent or $26 million of $365.5 million distribution revenues would be directed into the hands of Canadians, reducing U.S. film distribution rights to 85 percent of the Canadian distribution market (Timmins,1987:46).

While it is an understatement to say the Majors were concerned with Flora MacDonald's announcement, reaction in the Canadian distribution community was jubilant. Daniel Weinzweig, co-chair of the National Association of Film Distributors, perhaps tried to placate U.S. fears by stating "there is nothing in the bill that prevents American companies from buying Canadian rights. It just means they will have to establish a working relationship with a Canadian company for the distribution of a movie here" (Cinema Canada,1987b:42). Consultations ensued with individuals from the Canadian industry along with those in Britain, Europe, Australia and the United States, who expressed valid concerns and constructive suggestions (Communications Canada,n.d.A:2).

Apparently the concerns raised were over the possibility that restricting non-proprietary product to Canadian distributors in the Canadian market "could result in unfair and uncompetitive marketing practices by virtue of the monopoly Canadians would enjoy on non-proprietary product. In effect, while the initial proposals attempted to correct the unfair practices of the strong cartel of multinational distributors currently operating in Canada, it would create another "cartel" of Canadian distributors undermining fair market value for rights-holders" (Communications Canada,n.d.A:2).

Finally in June 1988, Canada's new Film Distribution Policy was announced in the House of Commons, proclaiming it would provide a comprehensive approach to resolve the distribution dilemma. Its primary component was the Film Products Importation Bill which created two sets of film products, proprietary and non-proprietary, and the conditions under which they may be imported into Canada by all distributors. Proprietary film products were described as those for which the importer owns world rights, or in which the importer is a principal investor. Non-proprietary films would be those produced by foreign independent filmmakers and for which the Canadian rights were acquired under a separate agreement and separate fee. The bill would be administered by the Film Products Importation Office which would review and approve or deny applications to import. Violators could face penalties of up to $200,000 per day and could forfeit the right to distribute films in Canada in the future.

Secondly, the establishment of the five-year $85-million distribution fund was announced and came into effect October 1988. Thirdly, new policies under Investment Canada affecting foreign investment in the Canadian distribution sector would address:

1. Prevention of takeovers of Canadian-owned and controlled distribution businesses.
2. New film and video distribution businesses in Canada would be allowed to import and distribute proprietary products only.
3. Any takeovers of foreign distribution businesses already operating in Canada will be allowed only if they contribute to the government's film policy goals. The policy was retroactive to the original announcement in February 1987.

The bill's final component was an injection of $115 million over five years into Feature Film Production to respond to the decrease in the Capital Cost Allowance. This fund was to be targeted to productions that are culturally significant or regionally-produced, non-theatrical or French-language. The funding was provided immediately through Telefilm Canada, the National Film Board and the Film and Video Program of Supply and Services Canada.

Thus, while successful in implementing three of four elements in distribution policies, the vital Film Products Importation Act never got past first reading in the House of Commons. The fall 1988 federal election which returned the Progressive Conservatives, without Flora MacDonald, to government on the mandate of Free Trade with the United States, was considered the intervening cause for the bill's demise. Recent press reports and the Chief of Film and Video Policy of Communications Canada, Robin Jackson (1990,personal communication,January 12), stated that the bill is to be re-introduced "soon". Neither a definitive date, nor the bill's content have been put forward.

4-V. SUMMARY

Government involvement in film activities has been substantial in terms of the number of programmes adopted, revised, and repealed. Currently, the most important federal activity occurs through its direct funding arm of Telefilm Canada.

While production funding programmes have long been an instrument of federal policy, recently, distribution funding programmes have been introduced as a vital component of the Canadian film industry. Provinces have also acted by funding independent film production which has been provincially produced and providing assistance to provincial distributors.

Production funding assisted developing film industry resources including production and distribution facilities and skilled labour. To diversify sources of film financing, the Capital Cost Allowance tax deferral mechanism was incorporated into prospective film proposals to attract individual investment. This scheme proved to generate tremendous production activity quickly, but did not match the long-term aesthetic goals that had been the guiding philosophy of public participation. Reliance on this mechanism was greatly reduced.

Re-emphasizing public funding programmes was a new thrust of the 1980s. Thus, programmes providing distribution assistance, the new Distribution Fund and the Marketing Assistance Programme, have also taken the form of government loans. In this way, funding is provided to assist those film projects that will help to develop the industry in line with public ideology. The government still maintains a certain amount of control in shaping the industry, which it had lost under the Capital Cost Allowance.

Film programmes in Ontario have adopted a similar strategy by relying on direct funding assistance. Under the guise of the Ontario Film Development Corporation, the industry is assisted in production, distribution and in stabilizing its infrastructure through the Location Promotion and Services Program and the Guaranteed Lines of Credit Program. Production assistance is also provided through the Ontario Film Investment Program, which credits investors who produce films with substantial Canadian input.

Quebec has relied on the Quebec Stock Savings Plan, which affords a high tax deferral rate in order to promote private production investment. Because of Bill 109, Quebec-based distributors have a guaranteed access to a market for both foreign and domestic films. This has increased their revenue base substantially and insured that independent distributors have a role to play in the Quebec market. Because of the unique language needs of the province, exhibition has not been ignored. While the dubbing law has not gone into effect, exhibitors must ensure French-language copies of films are available for screening, particularly outside urban-Montreal. Quebec has incorporated all of the film industry sectors into provincial film legislation, by devising suitable programmes for production, distribution and exhibition that match market realities.

Examining the development of the Australian industry reveals immense similarity to Canada's film history. Film assistance programmes are available at both federal and all state levels of government. At the federal level, direct funding assistance is available through the Australian Film Finance Corporation to those films that meet a desirable amount of Australian content. Australia has also experimented with tax incentives through the 10BA programme, but having encountered the same hysteria which overtook the Canadian industry, appears to have reduced the importance of private investment from original levels. Australia's mechanism did have an important distinction from Canada's in that rewards were provided for films that earned revenue. Another important distinction between Canada and Australia was the early recognition of foreign sales by the latter. Not to indicate that Australia developed its foreign markets particularly well; in fact, these markets may have been developed too soon, resulting in too much control for private institutions handling these films. A focus on foreign markets was recognized prior to the creation of a domestic audience for Australian film. Undoubtedly, this has resulted in the relatively low numbers of Australian films exhibited domestically each year.

Attempting to maintain its industrial and political leadership, Great Britain started developing its film industry in the early part of this century. It tended to emphasize film exhibition initially by setting quotas for exhibition of British films. What followed was a tremendous amount of production spearheaded by many of the leading distributors and exhibitors of the time, who could thus ensure that British product was available. However the types of films produced were questionable to the British government. After the Second World War, two programs began that had a tremendous impact: the National Film Finance Corporation which provided production financing; and the Eady Levy which promoted exhibition of British films by reducing the exhibitors' Entertainments Duty in exchange for a contribution to a production fund. Both of these programmes have recently collapsed and have been replaced with a much smaller production financing fund.

Thus it is evident that Canada's struggle to own and control its film industry and market is not unique. However, the examples of the British and Australian efforts can provide a testing ground for new policies under consideration, keeping in mind that each country has peculiar market needs to address. Capital Cost Allowance in Canada and, to a lesser degree, 10BA in Australia were limited in terms of their industry growth potential. Australia's scheme has been more successful because of the allowance made for profit-making films. Britain, by developing its production at the same time it promoted exhibition of British film, was successful. Both programmes complemented each other and mutually reinforced their need. Production was encouraged by encouraging exhibition of the films and a subsequent contribution to production by exhibitors. The effects of co-ordinated policies are intensified and emphasize a philosophy for Canadian policy development.

This co-ordination of policy is evident within the Film Distribution Bill announced in 1987. This legislation targets the several structural concerns of independent distributors, including available funding to producers and distributors, film and market access, and ownership. The governments made available substantially more funding to producers and distributors in the absence of the most crucial component of the bill, the Film Products Importation Act. Its reintroduction into the House of Commons is crucial to the continuation of independent distributors.

With the potential to acquire a larger market share with the reintroduction of the Act, an equal amount of anxiety has been created over the effects of the Free Trade Agreement. The wording of the Agreement's references to cultural industries creates concern in predicting the composition of new legislation. Some would argue that since the agreement neither specifically includes nor excludes the cultural industries which includes film, it is difficult to predict just how protected or vulnerable these industries are.

Film policies in Canada have not been developed in a co-ordinated manner between different levels of government nor have they matched the stated or implicit goals set out by government agencies. It is evident that this is a caused by a lack of understanding of the industry. While the industry seeks to operate in a systematic way, federal and provincial policies are not developed to reflect the system and may in fact prevent its fluid operation.

CHAPTER FIVE:

CONCLUSIONS AND RECOMMENDATIONS

5-I. COMMENTARY

The model of industrial organization economics provides an in-depth examination of industry operations: who the industry participants are, the structure within which they operate, and the manner in which they interact. This led to an understanding of the structure of the film industry, and the conduct of the participating firms. To provide a complete picture of the Canadian film industry, it has been necessary to include the component of public intervention from both the federal and provincial levels.

Chapter Two, which examined the structure of the industry, concluded that while Canadian distribution firms comprise the overwhelming majority in terms of numbers in the industry, their potential impact was reduced by the few financially dominant, vertically integrated, foreign-controlled Majors. The Majors maintain control of exhibition outlets, either directly or indirectly, through assured access to desirable product, and maintain strong financial links to film producers. Thus they reduce the inherent high risks of operating in this industry. This integration ensures a continuous flow of financing and of film products which have a reasonably anticipated high demand.

These links are not merely operational, but most importantly, are structurally imbedded in the system to ensure their dominance. Vertical integration amongst all industry components (producers, distributors and exhibitors) provides a structural barrier to any firm that is not part of the integration. It would only be reasonable to go outside the corporate structure to negotiate film rights if there is a reasonably assured benefit to revenue.

Exclusivity agreements compound obstacles against exhibition and distribution firms not vertically integrated with the now horizontally-integrated exhibition chains. As a result of vertical integration, the industry assumes the characteristics of an oligopoly leading to homogenization of film products from the production stage through to exhibition. Since these are foreign-controlled organizations, distribution revenues exit Canada, and Canadian products cannot find access to screens.

Chapter Three demonstrated how industry operations reinforced the discriminatory structure of the film industry. Six elements of the Canadian market work against the viability of a distribution industry comprised of relatively small independent firms. First of all, the Canadian market is itself small, fragmented and spread across a vast territory. To penetrate the entire market requires a tremendous outlay of resources, which is all too often an amount beyond the means of a Canadian distributor. Yet, little is to be gained by entering only a portion of it, for the nature of the business logically requires a complete penetration of the market.

Secondly, Canadian distributors really only have access to Canadian product and no foreign independent product, since the Majors demand full North American rights if the foreign producer wants his product screened in the U.S. Canadian distributors therefore cannot compete on this scale since they have no rights to the U.S. market. Logically, they must invest in and develop Canadian product to ensure their industry has commodities with which to work. Thirdly, theatrical exhibition is becoming an urban phenomenon where outlets are increasingly part of horizontally-integrated chains. Non-integrated theatres in small towns and rural areas often cannot compete with the speed at which films are released on home-video nor the price at which they are offered. These cinemas are becoming extinct. Yet as theatres become increasingly centralized in urban areas, the distributor's job is made somewhat easier. He no longer faces the inherent problems of a fragmented Canadian market. However, this exhibition trend remains undesirable as it has been shown that, as these urban theatres are tied to the Majors, they are inaccessible to most independent Canadian distributors regardless.

The fourth element concerns the challenges represented by new forms of exhibition technology which demonstrate that this is anything but a static field. Trends are leaning toward a greater control for the viewer to watch not only the film he wants at the time he wants, but also where he wants and the price he will pay. From a consumer standpoint, these exhibition forms are very attractive. The viewer has more discretion now as he may choose from at least four highly available forms of technology which provide movies (theatrical, home-video, pay-TV, broadcast TV). Looking ahead, there is no indication that other forms of exhibition will not be developed for consumer use. Clearly, as control of theatrical exhibition has historically provided dominance for a few distribution firms, it is not surprising that these same distributors have acquired control of new technologies, particularly the lucrative home-video field.

The fifth factor and a fundamental activity of the distribution business is film promotion. Advertising in all media (television, newspapers, trade magazines) and within theatres and video stores is an incredibly expensive undertaking. Unpaid advertising in the form of appearances on talk shows or film reviews requires maintaining an impressive list of individual contacts in these businesses. It may not be uncommon for these expenses to rival those of production. Of course the financial demands are more than what a small independent can handle and often the promotional efforts for the small campaign become lost against the massive penetration of the Majors' slick, glossy images.

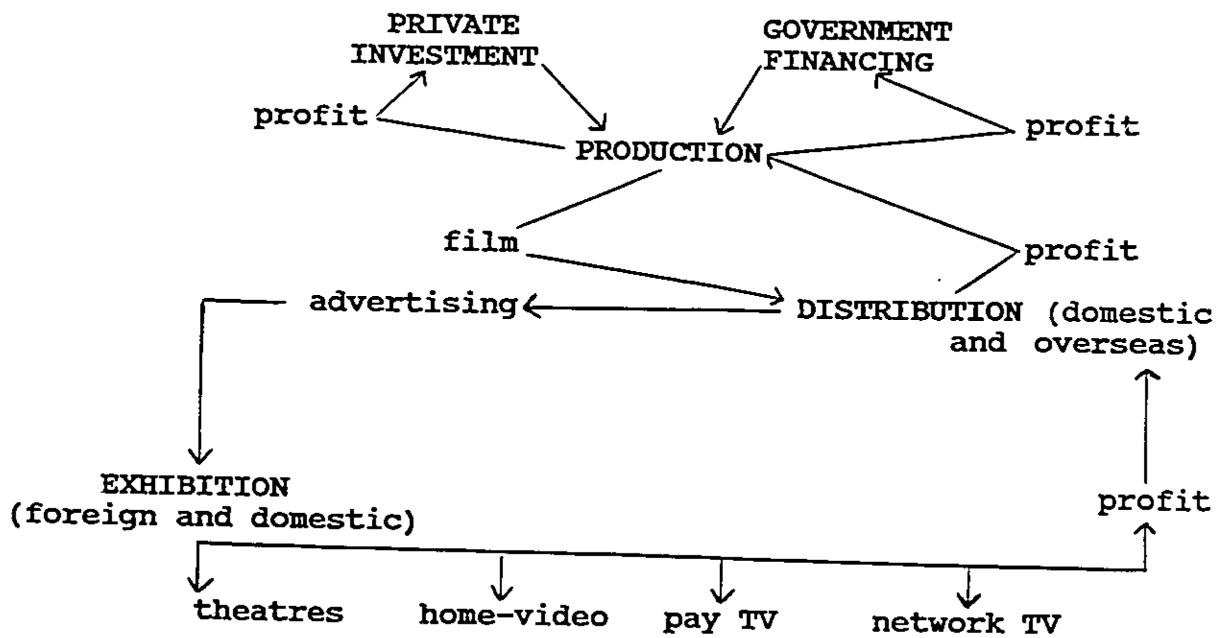
Finally, the Canadian distribution firms have been unsuccessful in using the law to strengthen their industry. Anti-combines legislation has not diluted the clout wielded by the industry's foreign component. Periodically, threats of legal action may cause a temporary retreat in the Majors' activities and lead to a compromise in industry operations. But full implementation of the law has not occurred to break the hold of the Canadian market by foreign firms.

Therefore, through examination of current industry data, Canadian firms conclusively are disadvantaged within their own market and to a large degree are at the mercy of the powerful leverage held by the Major distributors.

Melding the observations of these chapters, it is clear that the flow of financing and product throughout the industry is more complex than demonstrated by the diagram presented in Chapter 2. This diagram may provide the basis for a simple industry working under ideal conditions, but certainly this is not the model under which the Canadian industry operates. The diagram portrayed in Chapter 2 suggests no loss of revenue throughout the industry and an assured access to film products and exhibition outlets. As these assumptions are far from reality, a more reflective view of the industry is required. Nevertheless, they represent an ideal toward which the industry should strive: maximization of entrepreneurial financing throughout the industry with assistance, checks and perhaps ground rules provided by public policy.

A more accurate reflection of the industry would more appropriately appear as Figure 5.1. The difference between the diagrams is not merely in the addition of more industry participants in Figure 5.1, but also the potential for loss of revenue and product this suggests.

Table 5-1: PRODUCT AND FINANCING FLOW FOR FILM



Source: Adapted from Canadian Motion Picture Distributors Association (1979)

While an industry operating purely on market economics would certainly have spelled the end of the indigenous industry in Canada years ago, development and incentive programs have been implemented at primarily the federal level, and increasingly at the provincial level, to ensure the existence of a national film industry. There have been numerous programmes targeting public and private production financing and, to a lesser degree, encouraging theatrical exhibition of Canadian film and the creation of an audience to attend these screenings. Today, the focus has been on the distribution sector based on the rationale that this sector represents a crucial film investor and provides sound marketing advice to producers to ensure films have exhibition potential.

Film assistance programmes include: public financing through production funding programmes at both federal and provincial levels; private investment through the CCA at the federal level; the QSSP offered by the Quebec government; and OFIP by the Ontario government. Funding by the federal and Ontario governments encourages domestic distribution as does legislation in Quebec. Exhibition programmes, while attempted, have not been implemented completely; Quebec's dubbing rule is mandatory but has not been made law.

However, examination of the effect of these programmes is necessary to understand how each manipulates the industry. Certainly programmes to encourage production have worked to establish this sector of the industry. Direct financing by public entities, such as Telefilm Canada and the OFDC, for film projects that meet a minimum standard of Canadian content have been successful as a long-term endeavour. In the transformation of the Canadian Film Development Corporation into Telefilm, public funding targeted toward the Canadian Broadcast Program Development Fund was to have originated from a telecommunications programming services tax applied toward "any presentation of sound or visual matter designed to inform, enlighten or entertain, of a nature or kind that is broadcast by radio or television stations" (Government of Canada,1983:63). Thus a 6 percent tax was applied to amounts charged for radio and television services such as television cable rental, pay T.V. and movies shown on television in hotels, along with the sale or rental of necessary equipment to provide the service. Direct relationship between the funds raised from this tax and disbursements of financing assistance from Telefilm is no longer evident. Communications Canada Policy Officer, Allan Clarke (1990) indicated that:

> the revenues of this tax are applied to the Consolidated Revenue Fund so it is impossible to maintain a direct relationship between the financial assistance available through the Broadcast Fund and the revenues collected through the tax. For example, the Public Accounts for 1988-89 list total revenue collected through the telecommunication programming services tax as $135.3 million. During the same fiscal year, total funds dispersed through the Broadcast Fund amounted to $62.2 million.

Individuals with an artistic vision such as Anne Wheeler, Denys Arcand and Claude Jutra, who express a Canadian quality in filmmaking, have been nurtured over time and now shape the direction of filmmaking and provide a standard of excellence which many film products will continue to follow. The flow of film products demonstrated in diagram 5-1 also outlines the flow of creativity and the number of individuals who influence the project.

Furthermore, these projects have generated expertise amongst technical crews that can rival the best anywhere in the world and have led to the creation of the technical facilities and resources necessary to ensure that the industry continues. Therefore, public financing has allowed for the industry infrastructure to develop.

On the other hand, the CCA mechanism, while providing quick, short-term growth, does not match the level of development assistance generated by public financing. In its early days, the

CCA was an attractive investment scheme to those outside the industry who provided project financing, but who had little knowledge of the industry. Through this investment, projects were produced and along the way, Canadians not only were employed, but acquired skills in the industry and technical facilities were created. The resulting projects were not conducive, however, to enhancing a positive industry image and surely after 20 years of film production in Canada, the industry is not looking for short-term gains.

Moreover, individuals making use of the CCA are, by investing in individual projects, not necessarily knowledgeable of the marketability of the film since rarely can even those active in the industry accurately predict success. The CCA provides project-by-project financing with little regard for long-term industry stability.

But, as currently mandated, decreasing the CCA from 100 percent to 30 percent, and emphasizing projects which will generate income for investors as well as producers, is a wise decision. However, the distribution and exhibition sectors must be supportive of these films in order that they will earn a profit. Therefore while the new CCA mechanism may be well-intentioned, it also is premature, for support is not yet assured from distribution and certainly not from exhibition.

The Australian example may provide a good lesson at this point. While investors received a large tax shelter, earned income from these film projects was also subject to a tax exemption, although much smaller. This has spurred significant private investment in the Australian industry, while ensuring that quality films are produced with income potential for their investors.

Funding programmes to enhance the distribution sector in Canada are in place primarily at the federal level. Former Communications Minister Flora Macdonald drafted sound legislation that if fully implemented would have solved many of the problems facing Canadian distributors. Financing is available through both the Principal Component and the Contingency Fund of the Federal Film Distribution Fund to ensure that a higher level of film investment and marketing of Canadian films can be offered by Canadian distributors who also have a greater chance to bid for foreign independent films. The Marketing Assistance Program also assists distributors in national and international markets. New policy provisions of Investment Canada protect against further integration of distribution firms in Canada. However, the crucial component of the federal film policy, the Film Projects Importation Act, which targets the primary problem of Canadian distributors, has yet to be implemented. The FPIA, if re-introduced and passed in Parliament, could ensure that Canada operates as a separate national distribution market from the U.S. by governing the importation of proprietary film products. This legislation would reduce the leverage enjoyed by the U.S. Majors as Canadian distributors would have the ability to acquire films and arrange for their release in the Canadian market. Revenues accruing from these ventures would then be reinvested into Canadian film instead of being repatriated to the U.S.

At the provincial level, Ontario has created a film agency, the Ontario Film Development Corporation, similar in goals and structure to Telefilm. While intended not to compete with or duplicate Telefilm's programmes, the OFDC provides production financing, assistance for sales and distribution activities, location and promotion services and Corporate Management services. The latter two programmes were unique from federal initiatives, fostering the benefits of Ontario as a preferred film location in the first programme and administering the Guaranteed Lines of Credit programme in the Corporate Management Division. Each of these programmes is needed as they ensure the province's presence, and the stability of firms located in the province, in the industry.

Production financing under the OFDC is targeted toward low-to-medium-budget features which are seemingly distinct from Telefilm's larger-budget feature films. Telefilm invested a little over $1 million on average in each of 34 feature films in 1988-89 (Telefilm Canada,1989c). The OFDC invested $3.774 million in 31 projects in 1987-88, of which only 13 were feature films (OFDC,1988c). Furthermore, the OFDC stipulates that their investment guidelines include a high level of flexibility as opposed to the more rigid standards employed by Telefilm. The Sales and Distribution programme offered by the OFDC does come very close to mirroring its federal counterpart. Providing travel assistance for Ontario-based distributors to attend film festivals and loans to help finance the launch of new Canadian feature films in this province would appear to duplicate Telefilm's Marketing Assistance Program for Ontario-based distributors. The assistance provided these distributors is insignificant for larger distributors (Weinzweig,1989) and could be more productive if directed toward production or exhibition support programmes.

Quebec has gone farther than any other province to ensure the continuation of Quebec-based distributors. While the compromise legislation ensures a degree of access for foreign Majors in the province, it has erected inter-provincial trade barriers by denying access to film distributors from other provinces. The legislation has increased the revenues of Quebec-based distributors, but ironically has created two separate markets within Canada while maintaining the concept of the North American market, all of which are accessible by the Majors. Therefore, an already fragmented Canadian market has become even further eroded, making it more potentially vulnerable to foreign distributors.

5-II. CONCLUSIONS

Public policies, at both federal and provincial levels, have not considered the film industry as a system, with intricate networks of participants and components in operation maintaining industry stability. Policies have been static and a burden on the industry, providing too much direction and preventing these natural associations. The most effective new policies need only provide a boost to the weaker links that will strengthen the systemic flow that allows film to be a creative and productive industry.

Government assistance to the film industry can be supported for both cultural reasons and economic reasons. Culturally, as a medium of communication, it can relay the history, events, people and institutions that comprise this country and provide commentary for the future. Economically, film is a productive industry which has provided employment for thousands of Canadians and generated revenue for both individuals and government coffers alike. While separately, each of these motivators may be sufficient to substantiate government intervention, culture and economics together may not always harmonize. For instance, the Capital Cost Allowance was a sound economic measure to get production off the ground; however it was not an effective cultural tool, as used in the 1970s. Therefore, the appropriate balance must be ascertained, based on the goals to be achieved.

It is crucial that the choice of fiscal tool(s) and/or incentive programme(s) is made and that they are suitable for the intended purposes. With that in mind, clear and unequivocal industry goals for each of the major players must be stated in order to determine the role each should play and how each interacts. To date, this has not been done and consequently, as policies and programmes are implemented, revised and retracted, producers and distributors are discouraged from making long-term goals and commitments.

At this stage, a reminder of Michael Bergman's (1986) rationale for public assistance in the industry may serve at least to prompt discussion. Bergman advocated that the creation of a competitive entertainment form can only be achieved when all components of the industry have an interest in selling it. But whether Bergman's or another philosophy guides the industry, the crucial point is that film relies on publicly sponsored programmes and therefore needs a long-term strategy - a multi-year plan to establish a framework for the future.

Currently at the federal level, Telefilm and to a lesser degree the NFB, influence and support production and distribution of Canadian commercial feature film. Clearly, Telefilm is crucial for the independent producer and distributor. However, the danger of this vast amount of power and control wielded within one organization is that it may begin to resemble and act like a studio where film production and distribution suit Telefilm's goals, not those of the filmmakers. The balance in this case may be restored by provincial production funds. However, as these stand now, the funding they are able to provide is not very significant. Telefilm recently emphasized regional productions- and allocated funds specifically for this purpose. The provinces should enhance this as well, stress the importance of the highest-quality film projects and co-ordinate their priorities and resources with Telefilm through formal associations with their film agencies' directors. Film projects do not have to originate in Toronto, Montreal or Vancouver, and much greater use of regional facilities and visions must occur to create film products reflective of all of Canada. Thus inter-provincial co-production agreements are necessary to forge links to make these financing arrangements significant. Certainly projects enjoying these links should not be (and are not) excluded from Telefilm funding.

Federal distribution assistance consists mainly of the Principal Component of the Distribution Fund. This programme must be monitored carefully to ensure that the same distributors do not rely on it continuously. Distributors need financing and those which have been more supportive of Canadian feature film in the past should be rewarded for their tenacity. At the same time, those that have not met minimum criteria are not completely excluded as they can acquire public financing through the Contingency Component. A reasonable observation would suggest that Canada does not want a commercial film distribution sector in name only, one that lives or dies by public financing.

Therefore, Telefilm would be wise to set a time limitation for a firm's accessibility to these funds to encourage as independent an industry as possible. In a sense, the Principal Fund could create a "closed shop", by allowing companies which are a part of the Fund an unfair advantage and continuing to exclude those companies which are not a part of the Fund. That Canadian distributors do not have financial stability in the first place is caused by another concern - the structural and market advantages enjoyed by U.S. Majors.

Of course, this is the real concern, and that is why it is so crucial that the Federal Products Importation Act must be enacted. The FPIA must be the top priority over any other film legislation. Until this bill becomes law, the effect of the Distribution Fund will be minimized. While a company may belong to the Principal Fund, it will not necessarily acquire the Canadian rights to foreign independent productions so long as the Majors have the advantage of leverage and access to the entire North American market. The FPIA will not only enhance greatly the impact of this funding, but may also lead to a day when it becomes unnecessary.

As has been stated so often, distribution is a costly business commanding expenses in production of film prints in several formats (16 mm, 35 mm, 70 mm; 3/4 inch and 1/2 inch videotape), and advertising and promotional costs in the media. The Canadian market size, combined with its relatively lower level of film production, demands revenues that are as great as possible to support distribution facilities and equipment. Therefore, it is not a sector of the industry that benefits from decentralization, or a large number of small, scattered enterprises. To be effective this sector must be strengthened to ensure access to both film products and film exhibitors which will provide leverage in both national and international markets. This will not occur with an overabundance of weak distributors, propped up by federal financing. Distribution programmes must take a national perspective and rely on national resources, not contribute to provincial competition.

Here a new role for the NFB is presented. Historically, the film industry in Canada has been reactive, trying to counterbalance and reverse the negative effects of activities only after they have occurred. On the other hand, the NFB has established an international reputation for production innovation and development. The agency has worldwide networks providing in-depth industry insight and information. This expertise is beginning to be shared with commercial filmmakers, and not only must this activity increase further, but also diversify. If the film industry is to be successful, more unity must occur, more information exchanged, more co-operation and more awareness of market trends be attained in order that events can be anticipated, not regarded as an afterthought. The NFB should be given additional resources to participate in this integration. Without industry and market information and a plan for the future, there can be no control. Thus, the NFB, while continuing to investigate new production techniques, can become more involved in innovation in exhibition technology and market data.

The CCA, as currently utilized in Canada for financing individual projects, is ineffective as a tool to enhance the structure of the industry since it cannot provide a continuous source of financing.

If the tax mechanism can be adjusted to allow for CCA investment in the more fundamental structure of the industry, then the CCA could be used more effectively. A new type of Capital Cost Allowance could be implemented which would allow private investment into government funding programmes. Instead of investing in an individual film, the investor would be putting his money into the general coffers of public agencies. These organizations would then allocate these funds according to stated investment guidelines. The investor would be assuming a good share of the risk, but would also be eligible to claim any investment as Capital Cost. The management of private investment by Telefilm would be conducted on the same basis as a mutual fund. Investment would not be directed strictly toward an individual feature film or television production but would be spread across all forms of film and video production for which producers apply to access these monies.

Finally, the Marketing Assistance Program is very much a duplication of the federal Distribution Fund. Marketing is a function of distribution and to provide separate funds for this activity does not increase the integrity of the industry structure. While marketing assistance is not a huge fund, were its resources combined with the Distribution Fund, more distribution firms would have access to the Distribution Fund's Principal Component. This fund provides structural financing, while the Marketing Assistance Program provides individual project financing.

The provinces retain the authority to regulate exhibition under section 92(13) of the Constitution Act, 1867. This section grants to the provinces jurisdiction over Property and Civil Rights. Therefore provincial governments have enacted legislation for the control of their respective film industries, providing for the licensing of distributors and exhibitors, as well as legislation respecting censorship and building standards. While encompassing legislation for exhibition has not been altogether ignored by the provinces, it has certainly been de-emphasized in provincial film strategies. Only at the exhibition stage does the Canadian public have access to view the film. Unless exhibition occurs, the full value of production and distribution are prevented.

The provinces, through co-operative efforts, have a critical role to play in encouraging exhibition of Canadian film. This cannot be a province-by-province initiative, for it is an issue with national parameters that can only be confronted with strategies of national proportions. Former Ontario Culture and Communications Minister Lily Munro recognized that film distribution assistance is a national concern (Cinema Canada. 1989a:43). Distribution requires access to national theatrical markets, not isolating by provincial boundaries. It is incongruous to provide assistance to provincial distributors seeking international exposure yet ignore interprovincial distribution.

Further, the clout wielded by some of the smaller provinces may be insufficient to take on either or both of the major exhibition chains. Theatrical exhibition is worth hundreds of millions of dollars in the Canadian market and is dominated by two exhibition chains. The situation is analogous to Quebec's efforts to take on the Majors over distribution rights in that province. The resulting legislation was a compromise from the original proposal.

Co-operative efforts across Canada will also ensure that exhibition regulations have real impact. OFDC marketing director Shane Kinnear (1989) described a programme that will provide OFDC renovation funding assistance for rural theatrical venues in exchange for the screening of Canadian features. While this programme ensures a handful of theatres continue to operate and screen Canadian film when they could easily have screened something else, when restricted to an individual province, the impact is significantly less than its full potential. Take this programme across the country, and the film's exposure has greatly increased, along with media coverage and potential returns.

5-III. RECOMMENDATIONS

The foregoing indicates that the problems affecting the Canadian film industry are of national scope. It makes little sense from a distribution viewpoint to isolate smaller regional components. While production may be regional and exhibitors operate in specific locales, distribution requires a complete penetration of the Canadian market to maximize returns. Distribution must therefore be strengthened to take hold of Canadian exhibition and compete.

This is not to suggest that provincial initiatives are unnecessary. Far from it. In fact the provinces have an instrumental role to play in production financing and particularly in sponsoring exhibition programmes. That these ventures should be co-operative is to stress that no provincial initiative should prevent the commercial activities of firms from other provinces. This serves only to weaken further an already fragmented market, making effective national endeavors that much more difficult to implement.

Canada has produced many film classics and provided the training ground for filmmakers who are among the best in their field. Yet few in this country are aware of this excellence. If the industry is to go that extra step to make a Canadian film a known and desired commodity, the following recommendations are suggested:

1. An accord of the goals for the industry must be devised which reflect current conditions and the desired direction. Such a goal statement and multi-year plan needs to be achieved through consensus involving federal and provincial culture ministers and representatives of their film agencies. This consensus is reflective of vital input required from the provinces to form a federally-initiated strategy. Members of organizations representing the private film industry must also have input since these individuals will be executing the plan. Their vision will also provide direction for generation of subsequent plans. This strategy would act not only as a commitment to film industry producers, distributors and exhibitors, but also as a commitment to private investors seeking to invest for CCA purposes in funding programmes.

2. The Film Products Importation Act addresses the most burning issue in the film industry: access to films and the market by Canadian distributors. The importance of passage of this legislation cannot be over-stressed. Many of the national and provincial programmes currently in place will be greatly enhanced upon its passage. The CCA, on the other hand, can only be effective with its passage. The FPIA represents a genuine opportunity to give the Canadian market to Canadians.

3. The National Film Board is greatly under-utilized by the commercial sector. Its infrastructure and resources can fill many of the needs of independent producers and distributors, most notably in the research and development area. These industry sectors need more knowledge of current and future trends in demographics, exhibition technology and competition for film both at home and abroad to fill the information gaps and make better use of their own resources. In addition, the international distribution system developed by the NFB could be accessed on a sub-distribution basis by smaller independent distributors who are incapable of establishing their own elaborate international structure. Not only is this a task for the NFB, but also presents research topics for budding and established scholars.

4. Capital Cost Allowance for film, as it is currently utilized to finance individual projects, must be maintained at a low level. This will ensure that the bulk of the industry's financial control will stay in the hands of those most knowledgeable of the industry. If the CCA is redefined to allow investment in the financial coffers of a government agency where the investor is not directed toward a particular film, but general film and video production or distribution funding, the CCA could be increased. Under the latter mechanism, specific control of the financing is retained with the agency who has a responsibility to the investor to achieve a certain return.

5. While the provinces have an important role to play in the future of the film industry in Canada, their productivity can be greatly enhanced by co-operative ventures. Many provincial co-production agreements exist formally and informally for film production which allows access for financing in both provinces. For instance, an agreement between Alberta and Ontario exists such that using Alberta as the location will not prevent access to Ontario funding as long as other standards are maintained. This should be further encouraged and supported in order to reap the most rewards from the relatively limited finances available to provincial agencies. Furthermore, the impact will be felt in two or more regions of the country, instead of only one.

6. Since provinces have scarcer resources to allocate to the film industry, they must ensure that these are used in the most effective manner. Funding fewer programmes will target those areas in the most need. Thus, just as provinces should supplement Telefilm regional production, they must also develop co-operative ventures with Major exhibitors to ensure that a high level of interest in Canadian productions is maintained. Direct funding of the distribution sector is a matter to be left to the federal government.

7. A box-office levy similar to Great Britain's Eady Plan and applied additionally to video sales and rentals is an option with proven success where the proceeds could directly assist rural exhibitors, art cinema houses or local production. Addressing this concern will also assist in reducing box-office revenues that are repatriated to the U.S., which reduces industry film financing. In addition, with the explosion of the video retail market, which has elevated overall film revenues enormously, only a small levy would be necessary to achieve a sizeable fund.

8. Because the provinces do have such a large role to play in the feature film industry in Canada which has not been recognized yet, a joint study should be undertaken to explore the various mechanisms available and desired to pursue. This study could be a follow-up to the first recommendation of devising a multi-year plan for the industry taking into account a stated provincial role and their available resources. Certainly, a fundamental premise to such a study should be to eliminate barriers between provinces and to use provincial resources effectively.

5-IV. SUMMARY

The most important conclusion of this study is that assistance to the Canadian film industry is not completely a matter of throwing public money at the industry. Financing is crucial, but if directed in the right way, public assistance need not be a significant sum. For the most part, this assistance has not been accurately directed since it has not allowed the industry to mature and develop naturally. Instead assistance has stunted linkages and associations, creating artificial and unnecessary barriers.

Since the obstacles that will prevent the industry's success are. for the most part, known, plans and strategies to overcome them should be made easier than if they were not. Reactions by the MPAA to any strategy that has potential for success will be swift and forcefully negative. The effects of two new factors make development of a full strategy difficult. Under the Free Trade Agreement, the MPAA may have new ammunition. The extent of this new power will only be decided by trial and error. Secondly, it may be idealistic to believe that provincial consensus will be easily forthcoming. The film industry may not be a priority for all provincial governments and an agreement of a commitment of resources by each province will, no doubt, be difficult to achieve.

However, neither of these factors should prevent attempts to produce more effective film legislation and begin to build for the future. The recommendations presented in this chapter reflect the philosophy that government assistance should do exactly that - assist, not direct. The industry is fully capable of operating, given assistance to counteract the impediments of a small market size and the effects of foreign vertical integration. Mutual development of a multi-year plan between public and private film representatives will allow the industry to plan their own long-range activities with full and complete information.

These recommendations go beyond the suggestion to readjust the functions of public programmes. Instead, a re-evaluation of each and every public film agency and programme is necessary to ensure that duplication does not exist, all requirements are met, roles are clearly understood and that each is efficiently utilized. Moreover, each agency and programme should co-ordinate with others in such a way that government involvement in film also works as a system. If this goal can be achieved and both the private industry and public funding can work toward the same goal, Canadian film may be a force to be reckoned with.

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VITA AUCTORIS

NAME:	Mary Lynn Becker
PLACE OF BIRTH:	London, Ontario
YEAR OF BIRTH:	1960
EDUCATION:	Waterloo-Oxford District Secondary School Baden, Ontario 1973-1979
	University of Waterloo, Waterloo, Ontario 1979-1983 B.A.
	University of Windsor, Windsor, Ontario 1987-1990 M.A.